REPORT

OF THE

Indian Tariff Board

REGARDING THE

GRANT OF PROTECTION

TO THE

CEMENT INDUSTRY

CALCUTTA · GOVERNMENT OF INDIA
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NOTE.

The estimated cost of the Tariff Board during its enquiry into the Cement Industry is as follows:—

	Rs.	A	P
(1) Salaries of members and staff . .	40,205	11	2
(2) Travelling allowance (including daily allowance)	5,415	2	7
(3) Printing . . .	3,850	0	0
(4) Contingencies . .	1,483	6	8

NOTE.

The estimated cost of the Tariff Board during its enquiry into the Coal Industry is as follows:—

	Rs.	A.	P.
(1) Salaries of members and staff	42,790	2	0
(2) Travelling allowance (including daily allowance)	7,060	6	0
(3) Printing	2,270	0	0
(4) Contingencies	1,038	3	0

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MAJORITY REPORT.

CHAPTER I.

Introductory.

The question referred to the Board.

In the Resolution of the Government of India in the Commerce Department No. 47-T. (49), dated 30th September 1925, the Tariff Board were directed to examine the question whether a protective duty should be imposed on imported coal. The Resolution reads as follows:—

"In accordance with the statement made in the Legislative Assembly on the 15th of March 1924, the Government of India have now decided to refer to the Tariff Board for investigation the question whether a protective duty should be imposed on imported coal generally or on coal imported from any particular country or countries, and, if so, at what rates.

Firms or persons interested, who desire that their views should be considered by the Tariff Board, should address their representations direct to the Secretary, Tariff Board."

The proposals of the Indian Mining Federation and the Board's Communiqué.

2. As soon as the Resolution reached us, we invited the Indian Mining Federation, the body which had taken the lead in advocating protection for coal, to submit a statement of the proposals which they desired to put forward. In response to our invitation the Federation drew up and submitted, on the 28th October 1925, a memorandum explaining at length the measures which they recommended and the reasons which were held to justify them. The proposals made were as follows:—

(1) The imposition of protective duties at the following rates:—

(a) Rs. 5 a ton on coal imported from South Africa;

(b) Rs. 10 a ton on coal imported from any other country;

(c) Half an anna a gallon on imported fuel oil.

(2) The grant of a bounty of Rs. 3 a ton on coal exported to foreign countries.

We were of opinion that the proposed duty on fuel oil and the proposed bounty on exported coal were beyond the terms of our reference, and we informed the Federation that we could not consider them. At the same time we published (on the 6th November) a

Press Communiqué (Appendix I) explaining our decision, and inviting all interested in the matter to submit representations to the Board regarding the proposed duties on coal. Along with the communiqué we published also the memorandum of the Federation, and a questionnaire designed to elicit opinions and to clear up the facts of the case.

Proposals of the Indian Mining Association.

3. Detailed answers to our questionnaire were received both from the Indian Mining Federation and from the Indian Mining Association, while the latter body submitted also a memorandum in which their Committee reviewed the competition between Indian and imported coal in certain markets, and recommended the imposition of a uniform protective duty of Rs. 1-8-0 a ton on coal imported from all countries. This memorandum was circulated by the Committee to the members of the Association with the remark that members were fully entitled to submit independent views, if they so desired. Before the publication of the memorandum one firm—Messrs. Andrew Yule and Company—had expressed a desire to give evidence, but subsequently withdrew their request and intimated that they endorsed the views expressed by the Committee, and no other member of the Association addressed us. The claim to protection was thus put forward by the colliery owners of Bengal and Bihar and Orissa, most of whom, though not all, are members either of the Federation or the Association. The mines in these two Provinces are responsible for nine-tenths of the Indian coal output, and as the persons and firms interested in the production of coal in other provinces or in the Indian States did not approach us, they presumably do not expect to benefit from protection. The Mining Association numbers amongst its members 60 companies, firms and individuals, representing 134 coal companies, with an aggregate output of 14 million tons, and therefore voices the opinions of two-thirds of the Indian Coal industry. Similar figures for the Federation cannot be given, as our request for information on the point was left unanswered, but we understand that there are a number of colliery proprietors in Bengal and Bihar who stand outside both bodies.

Evidence tendered in favour of protection.

4. The invitation contained in our communiqué did not evoke any widespread response. The Indian Colliery Employees' Association argued that protection would lead to increased employment, or would diminish unemployment, and was therefore likely to be beneficial. The claim to protection received further support from the Bombay and Ahmedabad Millowners' Associations, the Madras Chamber of Commerce and the Indian Merchants' Chamber, Bombay. The Madras Chamber regard the rebate on export coal given by the South African Railways as of the nature of a bounty, and recommend that protection should be given to the extent necessary to countervail the unfair competition. The view of the Bombay Millowners' Association is more guarded, for while they oppose the imposition of a protective duty on all imported coal, they favour such a duty if it is applied only to coal which is assisted

by bounties or subsidies. The Indian Merchants' Chamber, on the other hand, are whole-hearted in their advocacy of protection, and desire the addition of no less than three rates of duty to the existing revenue duty of 8 annas a ton. They propose:—

(1) A duty of Rs. 2-8-0 on all imported coal to compensate for the rise in the rupee sterling exchange from 1*s*. 4*d*. to 1*s*. 6*d*.

(2) A duty of Rs. 5-2-8 on South African coal to countervail the Railway rebate.

(3) A special duty on coal imported from any country with a depreciated exchange, varying according to the amount of the depreciation.

Of these proposals (2) is considered in Chapter IV and neither (1) nor (3) need be discussed at length. We cannot approach this question on the basis that Indian and imported coal are exactly on a level when the exchange is at 1*s*. 4*d*. and that the amount of protection needed is to be measured by the fall in the rupee value of imported coal resulting from the rise in the exchange to 1*s*. 6*d*. The only country with a depreciated currency which sends any coal to India is Japan, and the quantity of Japanese coal imported is so small that its competition is negligible.

Evidence tendered against protection.

5. The opponents of protection include three firms who are interested as merchants in the coal trade, and four Chambers of Commerce (Bombay, Upper India, Burma and Karachi). The grounds of opposition are in the main that a clear case for protection has not been made out, that any measures which are likely to add to the cost of fuel are prejudicial to industries generally, and that a protective duty might injure the bunker trade. The objections to protection will be examined in Chapters III and IV, and it is not necessary to discuss them here, but there is one significant fact which deserves mention. None of the opponents of protection desired to send a representative for oral examination, and the tone of the representations did not suggest that their authors apprehended any dire consequences if a protective duty were imposed. Had it seemed probable that protection would lead to a general rise in coal prices, every possible step would no doubt have been taken to emphasise the objections to an increase in the duty.

The Board's sources of information.

6. The only witnesses examined orally were the representatives of the Mining Federation and the Mining Association for we found no sufficient reason for asking any of the opponents of protection to reconsider their refusal to give oral evidence. Many of the written representations we received, however, have been of value to us in our enquiry. Special enquiries were addressed to the Collectors of Customs regarding the bunkering of coal at the large ports, to Messrs. Tata and Sons, Limited, regarding the cost of hydro-electricity in Bombay and the new hydro-electric stations now under construction, and to the Agents of the Great Indian

Peninsula and North Western Railways, the Bombay Millowners' Association and the Chambers of Commerce at Bombay and Karachi regarding the price of fuel oil. To all of these officers, public bodies and firms we desire to record our obligations. Most important of all is the oral and written evidence of the Mining Federation and the Mining Association. We are indebted to both bodies for a prompt and willing response to many requests for information. Finally, we have made free use of the facts and figures compiled by the Indian Coal Committee and recorded in their Report, Appendices and Evidence. The question into which they enquired was not the same as that referred to us, but there is much common ground, and their investigations greatly lightened our labours.

Arrangement of the Report.

7. For the reasons explained in paragraph 8, we have found it advisable to consider first the probable results which are likely to follow the imposition of a protective duty. On the one hand, the producer may benefit by an expansion of his market and by a rise in the price of coal, while, on the other hand, the consumer may be injured if the cost of fuel is increased. These aspects of the case are considered in Chapter II. The specific proposals of the Mining Federation and the Mining Association are discussed in Chapter III. The Federation desire that a higher duty should be imposed on coal imported from the United Kingdom and elsewhere than on coal imported from South Africa, while the Association recommend a uniform rate of duty on coal from all countries. The question to be answered, therefore, is whether there are sufficient grounds for a protective duty which would apply to all imported coal irrespective of its origin. Whether that question is answered in the affirmative or in the negative, it still remains to decide whether coal from a particular country should be subjected to a higher duty than the ordinary rate. The assertion made is that the rebates granted on export coal by the South African Railway Administration are equivalent to a bounty and that the competition of South African coal is unfair. The existence of a bounty might justify the imposition of a countervailing duty even though the case for protection generally had not been established, but it is worth noting that the claimants for protection do not ask for a higher duty on South African coal. This aspect of the case is discussed in Chapter IV.

CHAPTER II.

The Probable Results of a Protective Duty on Coal.

Necessity of investigating the probable results of a protective duty on coal

8. An industry which asks for protection generally expects to benefit by a higher price for its products, or by an extension of its market, or by both. If it supplies only a portion of the country's demand for similar commodities—and this is the common case, for it is the nascent industries which stand most in need of protection—it will usually be found that prices are regulated by the cost of importation, and an increase in the import duties is followed by higher prices for goods made in the country. A second result is a wide extension of the area within which the domestic product can hold its own against foreign competition, and consequently a substantial increase in its sales. When these conditions exist no elaborate demonstration is necessary in order to show that the protection given will be fully effective. The circumstances of the Coal industry are very different. The imports of foreign coal are only $2\frac{1}{2}$ per cent. of the domestic consumption, and except in the sea-board markets most remote from the coal fields, foreign competition is negligible or non-existent and prices are regulated solely by internal competition between the Indian mines. It is impossible to assume that a protective duty will operate as in ordinary cases, and before its probable results can be predicted, the relevant facts and figures require detailed examination. It is indispensable, moreover, that this point should be investigated before the other aspects of the case are considered. It is difficult to appreciate the weight of the arguments for or against a protective duty on coal, until an attempt has been made to ascertain to what extent the producer is likely to benefit, and the consumer to suffer from the imposition of the duty. It is quite possible that a duty imposed for protective purposes may be from the first or may afterwards become, entirely inoperative whether for good or evil. It is the object of this Chapter to state clearly the important points, and to make it plain what a protective duty on coal can do for the Coal industry and what it cannot.

Questions to be examined.

9. The two questions which we have to examine are:—

(1) To what extent would the sale of Indian coal be increased by the imposition of a protective duty.

(2) To what extent would the higher duty increase the price of coal in India generally, or in particular markets.

Neither question can be discussed adequately without frequent reference to statistics, and while, so far as possible, figures have been relegated to Appendices II to VIII, they cannot be excluded altogether from the text. The attempt has been made, however, to avoid minute detail in this Chapter, and to present rather the broad results and bring out the salient points. For purposes of

comparison we have tabulated in the Appendices the figures for the four years immediately preceding the war—1910 to 1913—and the figures for five post-war years—1921 to 1925. The figures of the war years and of the years 1919 and 1920—we have excluded, because they have little or no significance in our enquiry. Shipping difficulties, which commenced almost from the outbreak of the war, intensified as the struggle proceeded, and were not effectively removed for two years after its termination. The result was an almost complete suspension of the imports of foreign coal for five years. For this reason it seemed advisable to make a direct comparison between the pre-war and post-war periods, omitting the intervening years. Occasionally, however, it has been necessary to refer to some feature of the war period in order to explain the situation which arose in 1921 and 1922.

The market for coal in India before the war.

10. In 1910 twelve million tons of coal were raised in India of which nearly a million tons were exported, and the nett internal consumption* (including bunker coal) was nearly 10 million tons of which only 3·3 per cent. was imported. Four-fifths of the imports were British coal. There was little change in 1911, but in 1912 and 1913 new features came into prominence, and both British and Indian coal lost ground to their competitors. By 1913 the exports of Indian coal had dropped to three quarters of a million tons, while the imports of foreign coal had risen from 333,000 to 858,000 tons of which less than one-third was British. Both Japan and Australia sent larger quantities of coal to India, but the most noteworthy fact was that the imports of South African coal increased from 18,000 tons in 1910 to 176,000 tons in 1912 and to 246,000 tons in 1913. It was in these years apparently that the rebate of railway freight on export coal was first granted by the South African Railway administration. An increase in the absorptive capacity of the Indian market, however, fully compensated for the decline in exports and the increase in imports. The domestic consumption in 1913 exceeded 14 million tons—an increase of more than 40 per cent. in three years—while the output of the Indian mines rose to over 16 million tons or by more than a third since 1910. It could not be said, therefore, that foreign competition had seriously injured the industry.

Conditions affecting the Indian coal market during and after the war.

11. From 1916 to 1920 the imports of foreign coal only once exceeded 50,000 tons and were therefore negligible, while the exports of Indian coal averaged 600,000 tons a year during the quinquennium. During the first years of the war the output of the Indian mines increased comparatively

* The figures given as the nett internal consumption in any year is arrived at by deducting from the coal raised in India in that year the coal exported *plus* an allowance of 12½ per cent. for wastage and colliery consumption, and by adding the imports. The re-exports have not been deducted because they consist almost entirely of foreign coal transhipped direct from vessel to vessel at Bombay and Karachi and used for bunkering. If it were possible, it would be convenient to exclude all coal bunkered at Indian ports, but complete figures are not available for any year prior to 1925.

slowly, and reached 18 million tons in 1917, but the three following years witnessed striking changes. Production soared to nearly 21 million tons in 1918 and to $22\frac{1}{2}$ million tons in 1919, and then as suddenly dropped back to 18 million tons in 1920. There was an intensive and growing demand for coal in India during these years, at first for munitions and later for the new industries, which endeavoured to establish themselves during the boom period, and prices moved steadily upwards. In 1918 and 1919, moreover, the mines were raising far more coal than the railways could transport and the stocks in the collieries rapidly accumulated. In 1919 and 1920, the East Indian and Bengal Nagpur Railways despatched only 30 million tons of coal, though 37 millions of tons had been raised in Bengal and Bihar and Orissa in these two years. By the middle of 1920 industries were threatened in many places with an actual shortage of coal, and the situation was aggravated by the export of $1\frac{1}{4}$ million tons of coal in 1920. In June 1920 the Government of India felt it necessary to prohibit the export of Indian coal except under license, and subsequently at various dates in 1921 to prohibit altogether the export of coal to the Straits Settlements, to Aden and to Ceylon. Meanwhile the shortage of shipping had at last been made good, and high prices attracted to India foreign coal from many different countries. More than three million tons of coal were imported into India in 1921 and 1922, and as the domestic consumption of coal during these years was about 36 million tons, the imports supplied $8\frac{1}{2}$ per cent. of the demand.

The Indian coal market from 1923 to 1925.

12. The sudden invasion of the Indian market by large quantities of foreign coal may have alarmed the industry, but it soon became evident that imports on the scale of 1921 and 1922 were a transient feature, due to entirely abnormal conditions. The imports dropped to a little over 600,000 tons in 1923 and to less than half a million tons in 1924 and 1925. The exports which had dropped to 77,000 tons in 1922 have been slow to recover, and in 1925 amounted only to 216,000 tons. Meanwhile the output of the Indian mines which had been practically stationary from 1921 to 1923 at between 19 and 20 million tons rose to an average of 21 million tons in 1924 and 1925. The nett annual consumption of coal in India is now approximately $18\frac{1}{2}$ million tons of which only $2\frac{1}{2}$ per cent. is imported coal. It is important to make it clear that Indian coal has for the last three years supplied a larger proportion of the Indian demand than it did in 1911 and 1912 when, for practical purposes, the only foreign competition was from British coal. South Africa now supplies about two-thirds of the imported coal and the United Kingdom a quarter (mostly Welsh steam coal for bunkering). The imports from other countries are negligible.

Imports of foreign coal only $2\frac{1}{2}$ per cent. of internal consumption.

13. The brief survey of the development of the Indian Coal industry contained in the last three paragraphs will suffice to show that the demand for protection has been made in somewhat unusual circumstances. An industry which

has increased its output by 75 per cent. in 15 years, can hardly claim that it is suffering from lack of development, nor when it supplies $97\frac{1}{2}$ per cent. of the internal demand, can it argue that its hold on its natural market is seriously shaken. There is no reason for apprehending a recurrence of the heavy imports which occurred in 1921 and 1922, for the conditions which produced them have passed away. As in other countries, the price of Indian coal has fallen back to a point not far above the pre-war level, and the railways are now able to transport all the coal that the mines can sell. In these circumstances the additional market, which protection can give, is not more than $2\frac{1}{2}$ per cent. of what the industry already has. It may, however, be argued that percentages relating to the whole of India are misleading, and that though foreign competition is unfelt in the greater part of India, there are particular Indian markets where it constitutes a real danger against which measures should be taken. Of such markets there are only four, namely, the ports of Rangoon, Madras, Bombay and Karachi and the areas in their vicinity which coal can reach more easily and cheaply through the port than by an all-rail route. In the rest of India it is admitted that foreign coal cannot compete. We shall examine the circumstances at all these ports.

The market for coal in Burma and Madras.

14. The representatives of the Mining Federation and the Mining Association admitted that little was to be feared from foreign competition in Madras and Burma* and it will suffice to state succintly the actual facts. In Burma foreign coal was about $4\frac{1}{2}$ per cent. of the total consumption from 1910 to 1912 and about 7 per cent. from 1912 to 1914. After the war the imports were as high as 36 per cent. in 1921-22, but steadily diminished to 5 per cent. in 1924-25 with a slight increase to 7 per cent. in the nine months ending in December 1925. Indian coal has now entirely recaptured the share of this market which it lost temporarily in 1921. In Madras foreign coal was little more than 1 per cent. of the imports by sea in 1910 and 1911 and about 4 per cent. in 1912 and 1913. For three years after the war the percentage of foreign imports ranged from 15 to 25 but dropped to $8\frac{1}{2}$ in 1924-25 and to $5\frac{1}{2}$ in the last nine months of 1925. In this case also the pre-war position has been re-established. The consumption of sea-borne coal in Madras and Burma, both before and after the war, has averaged about 800,000 tons a year, and the quantity of foreign coal imported is no more than 50,000 tons or $6\frac{1}{4}$ per cent. It is evident that Indian coal can have little need of special assistance in either province. It follows that only in Bombay and Sind is foreign competition seriously felt and the circumstances of these markets merit a more minute examination.

The Bombay coal market before, during and after the war.

15. In the four years immediately preceding the war the supplies of coal which reached Bombay amounted in the aggregate to 1,200,000 tons a year, of which 95 per cent. came by

* The imports of coal into Burma and Madras by sea, before and after the war, have been tabulated in Appendices IV and V.

sea and only 5 per cent. by rail. During the first half of the period three-quarters, and during the second half three-fifths of the supplies were Indian coal. This weakening of India's hold on the Bombay market was mainly the result of heavy imports of South African coal which rose from an average of 18,500 tons in 1910-11 and 1911-12 to an average of 186,000 tons in the next two years. During the war the imports of foreign coal were negligible after 1915, but the restrictions on shipping had another striking result, for the shipment of coal from Calcutta to Bombay was suspended altogether for three years. During the seven years from 1914-15 to 1920-21 about 1,100,000 tons of coal reached Bombay annually and more than three-quarters came by rail, while for four years* in succession the rail-borne coal was more than 90 per cent. of the arrivals. The years 1921-22 and 1922-23 were marked by a revival of foreign imports on an unprecedented scale. In these two years, out of a total tonnage of nearly 2¾ million tons, two-thirds were foreign coal and only one-third was Indian. The three following years of the quinquennium witnessed two changes—a marked decrease in the consumption of coal and a gradual recovery of the market by Indian coal. The total consumption, which before the war was about 1,200,000 tons a year, has averaged little more than 600,000 tons during the last three years, while the proportion of Indian coal rose to about two-fifths in 1923-24 to one half in 1924-25, and to three-fifths in the first nine months of 1925-26. The nett result is that Bombay now takes only half the quantity of coal which she required before the war, and the Indian mines supply very nearly the same percentage of the total as they did in 1912 and 1913.

Displacement of coal in Bombay by fuel oil and hydro-electricity.

16. The decrease in the consumption of coal at Bombay is attributable not to any decline in industrial activity, but mainly to the displacement of coal by hydro-electricity and fuel oil. In 1913-14 there were 82 cotton mills in Bombay City and Island all of which used coal as their sole source of power. In 1924-25, 61 mills used hydro-electricity as their main source of power, 23 used fuel oil either as their main source of power, or for subsidiary purposes, while the number of mills still dependent entirely upon coal was only 17. Most of the mills using hydro-electricity, however, used also considerable quantities of coal for the production of steam for heating, drying and bleaching. These figures were supplied by the Millowners' Association. The Bombay Chamber of Commerce informed us that, apart from the mill industry, they were not aware of any important industrial concerns in Bombay that were consumers of coal. The power supplied by the Tata Hydro Electric Companies in 1924-25 was the equivalent of between 300,000 and 400,000 tons of coal,† while the imports of

* 1916-17 to 1919-20.

† The Bombay Millowners' Association stated one ton of coal is equivalent to 600-800 electrical units, according to the type of coal and steam plant used. In 1924-25 the Tata Power Companies supplied 250 million units. It is on this basis we have estimated the quantity of coal displaced.

fuel oil in the same year amounted to 60 million gallons or about 250,000 tons which may be taken as equivalent approximately to 450,000 tons of coal. Fuel oil is used not only by cotton mills and other industrial establishments, but also in bunkering ships (40,000 tons in 1923-24), and on the Great Indian Peninsula Railway (82,000 tons in 1924-25). The completion of the new hydro-electric stations now under construction will lead to a further displacement of coal by electricity, but may not affect the import figures appreciably. Nine-tenths of the increase in power capacity is earmarked for use by the Railways in the electrification of the suburban lines. But on the Great Indian Peninsula Railway oil fuel is used on all suburban trains and in most of the main line trains up to Igatpuri and Kasara. It appears from the evidence given by the Agent of the Railway before the Coal Committee that after electrification the oil burning locomotives will be transferred to sections of the line more remote from Bombay. The coal that will be displaced is therefore not coal which comes to Bombay by sea, but coal which crosses India by rail and never reaches Bombay at all. In 1913-14 the Great Indian Peninsula Railway imported 279,000 tons of coal into Bombay by sea, but none since 1921-22. Most of the coal used by the Railway is now drawn from its own colliery at Kargali in the Bokaro coal field and transported by rail, but very little of it actually reaches Bombay.

The present market for coal in Bombay.

17. In a later paragraph we shall give our reasons for believing that, with rates and prices at their present level, coal is not likely to lose much more ground to oil and hydro-electricity, but on the other hand it does not seem likely that many of the consumers, who have abandoned the use of coal, will return to their first allegiance. The Bombay coal market requires 600,000 tons of coal annually, of which three-fifths is supplied by Indian mines and two-fifths from abroad. The market which might be captured cannot be put higher than 250,000 tons. Of this quantity, however, about 150,000 tons is used for bunkering, or is re-exported as cargo, and it is by no means certain that the imposition of a protective duty would enable the Indian mines to secure the whole of this branch of the trade. Coal is sometimes transhipped from vessel to vessel without being landed, and in such cases, though duty is paid in the first instance, a rebate of seven-eighths is subsequently granted. The quantity of coal so transhipped at Bombay in 1925 was 40,000 tons, and if an increase in the duty were followed by an increase in the price, it is probable that shipowners would resort to this practice on a more extensive scale. It is still more probable that, if prices went up, fewer ships would bunker in Bombay, for the shipowner in this matter is not amenable to coercion and has often the alternative of bunkering at a cheaper port. At a time, when the shipping trade is passing through a period of extreme depression, costs are narrowly scrutinized, and a small difference in the price of coal may easily divert business elsewhere. At any rate, it is clear that the re-exports of coal—all coal transhipped direct from vessel is included under this head—must be deducted from

the capturable market in Bombay, and as the re-exports amounted to 51,000 tons in 1925, it is clear that protection could not give the Coal industry an additional market in Bombay for more than 200,000 tons, and quite possibly the actual increase in the sales of Indian coal might be substantially less than this figure.

Pre-war imports of coal at Karachi by the North Western Railway.

18. Before the war the great bulk of the coal which reached Karachi by sea was imported for the use of the North Western Railway. The figures supplied by the Agent of the Railway are as follows:—

	Imports by sea of railway coal.	
	Indian.	Foreign.
	Tons	Tons.
1910 11	363,205	..
1911-12	192,809	.
1912 13	292,644	27,326
1913-14	283,682	165,394

The quantities of coal passing through Karachi for railway use before the war were therefore substantial, and in two post-war years—1921-22 and 1922-23—they were on a similar scale, 371,000 tons of foreign coal being imported on Government account in the former year and 317,000 tons in the latter. The post war imports were due, however, to temporary causes which have now ceased to operate, and the Railway Administration no longer imports coal by sea. As early as January, 1914, trials of oil fuel were commenced on the Karachi section of the line, and, the results being satisfactory, oil fuel had come into general use on the railway by the middle of 1918 for a distance of 200 miles from Karachi. In 1924-25, 65,000 tons of fuel oil (estimated to be equivalent to 117,000 tons of Bengal coal) were consumed by the railway and no coal was imported by sea. The coal required for the sections of the railway more than 200 miles from Karachi must, therefore, have been transported by rail.

The market for coal at Karachi before, during and after the war.

19. The coal (other than railway coal) imported into Sind before the war was used mainly for bunkering, but supplied also the industrial needs of Karachi and its vicinity. The market though small was growing rapidly, and the imports by sea increased from less than 60,000 tons in 1910-11 to more than 120,000 tons in 1913-14. During the first three years of the period, the proportion of Indian coal was more than three-quarters, but dropped to two-thirds in 1913-14 owing to larger imports from South

Africa During the war period, the importation of coal by sea was suspended, and Karachi was entirely dependent on Indian coal transported by rail. Imports by sea were resumed in 1920 but no foreign coal arrived in that year. From 1921-22 onwards the coal arriving by rail has been negligible. For the first three years of the quinquennium beginning in that year, the annual imports by sea averaged 145,000 tons, but increased to 180,000 tons in 1924-25 and are likely to exceed 200,000 tons in 1925-26.* The proportion of Indian coal, which was nearly three-fifths in 1921-22, dropped to a little more than a quarter in 1922-23, rose again to two-fifths in the next two years and should be more than one-half in the current year. In this case also Indian coal is gradually recovering the predominant position which it held before the war.

The present market for coal at Karachi.

20. Karachi is not yet a large industrial centre and most of the coal imported there is used for bunkering. Statistics are not available for any year prior to 1924-25, but in that year the coal bunkered was 115,000 tons out of 179,000 tons imported, so that the coal retained for internal consumption was only 64,000 tons. In the first nine months of 1925-26, the bunker coal was 96,000 tons as against 159,000 tons imported. The bunkering of Indian and of foreign coal is not recorded separately, and it must be presumed that the proportion of each is the same as in the import figures. The total imports from foreign countries cannot be put higher than 100,000 tons a year, out of which 60,000 tons would be bunker coal. At Karachi, as at Bombay, bunker coal is sometimes transhipped direct from vessel to vessel and in such cases it escapes the import duty. The quantity dealt with in this way in 1924 was 22,000 tons, and still larger quantities would no doubt be transhipped if the duty were raised. Probably not more than half the bunker trade could be captured if a protective duty were imposed. The increase in the sales of Indian coal at Karachi, which might result from protection, is therefore limited to 70,000 tons of which 30,000 tons would be bunker coal.

Increase in the market for Indian coal which a protective duty could give—only 300,000 tons a year.

21. We have estimated that protection might increase the sales of Indian coal at Bombay by 200,000 tons and at Karachi by 70,000 tons. The imports of foreign coal in Madras and Burma might be extinguished altogether and these amount at present to about 50,000 tons a year. The increase in output which protection can give is therefore no more than 320,000 tons, which is 1·7 per cent. of the total consumption. The share of the Bihar and Bengal coal mines, who are the most likely to benefit, might be as much as 300,000 tons. The output of these coalfields in 1925 was $18\frac{3}{4}$ million tons, and if $12\frac{1}{2}$ per cent. be deducted on account of wastage and colliery consumption, the nett output is $16\frac{1}{4}$ millions. The increase in sales could not therefore exceed 1·8 per cent. This is a maximum

* The imports during the first nine months of the year amounted to 159,000 tons.

figure, for less of the bunkering trade may be captured than we have estimated. We shall now turn to the effect of protection upon prices.

The c i f cost of the best Jharia coal at the Indian ports

22. The Coal Committee found that the best Jharia coal (usually known as selected Jharia) was the type of Indian coal most closely resembling the South African coal which constitutes the bulk of the imports and therefore most likely to displace it. The whole of our discussions with the representatives of the Indian Mining Association and the Indian Mining Federation proceeded on this basis, and it is desirable to adhere to it. The price of this type of coal was stated to be Rs. 6-8-0 a ton at the pithead at the time evidence was taken, but it has since fallen to Rs. 6 a ton, which is the figure given by both the Federation and the Association after the Government Railway contracts had been placed. In order to ascertain the price payable at the overseas Indian ports it is necessary to add the transport charges which have to be incurred up to arrival at destination. The Coal Committee found that the transport charges, other than the sea freight, amounted to Rs. 5-2-6 a ton and with the rebates subsequently sanctioned th s sum is reduced to Rs. 4-8 made up as follows:—

	Rs.	A.	P.
Railway freight (nett)	3	0	6
Calcutta port charges	0	12	0
Grading fee	0	1	0
Wastage at 2 per cent.	0	3	0
Insurance	0	3	0
Finance	0	4	0
TOTAL	4	7	6

The Mining Federation would include in the transport charges an allowance of 4 annas a ton to cover agency charges at destination and would raise the allowance for wastage from 3 annas to 5 annas a ton. It appears from the oral evidence that the allowance for agency charges is intended to cover the cost of popularising Indian coal at Bombay and Karachi by propaganda work. The evidence suggests that it is only some of the colliery owners who find it necessary to incur this charge, which in any case is not part of the c.i.f. cost. As for the wastage we see no reason to alter the Coal Committee's figure which is accepted by the Mining Association. The c.i.f. cost of the best Jharia coal at the various Indian ports is arrived at by adding to the pithead price the transport charges up to the time of shipment and the sea freight which varies for each port. The following table gives the c.i.f. cost of selected Jharia at Rangoon, Madras, Bombay and Karachi, the sea freights given being the actual freight payable in October

and November 1925 as supplied by the Mining Association. It is assumed for the moment that Rs. 6 is the lowest price that would be accepted for the best Jharia coal sold anywhere in India, and that there is no competition from abroad:—

	Price f. o. b. Calcutta.	Sea freight.	Cost c. i. f. port of destination.
	Rs. A. P.	Rs. A. P.	Rs. A. P.
Rangoon	10 8 0	4 0 0	14 8 0
Madras	10 8 0	5 0 0	15 8 0
Bombay and Karachi	10 8 0	6 8 0	17 0 0

Sea freights to Bombay on coal from Calcutta and South Africa.

23. At the time the Coal Committee made their enquiry (January 1925), the c.i.f. price of Transvaal coal at Bombay was Rs. 19 a ton. The present c.i.f. price, as given both by the Federation and the Association, is Rs. 17 a ton. Two-thirds of the reduction is accounted for by a fall in the sea freight on South African coal from 12 shillings to 10 shillings a ton. The following table compares the sea freights from (*a*) Calcutta and (*b*) South Africa at various dates:—

	January 1925.	Normal rate as estimated by the Coal Committee	October and November 1925.
	Rs A. P.	Rs. A. P.	Rs. A. P
Calcutta to Rangoon	5 0 0	6 0 0	4 0 0
Calcutta to Madras	6 0 0	6 12 0	5 0 0
Calcutta to Bombay or Karachi	7 0 0	8 4 0	6 8 0
South Africa to any Indian port.	8 0 0	8 0 0	6 10 8

In estimating the freight normally payable on coal shipped from Calcutta to other Indian ports, the Committee adopted what they believed to be the rates at which twelve months contracts could be placed, and for Bombay this rate was 4 annas in excess of the South African rate. Actually, however, the rates from Calcutta to Bombay have in two successive cold weathers been lower than the rates from South Africa, and no evidence has been adduced which suggest that on the average Indian coal will be subject to a higher sea freight to Bombay than the freights payable on coal from South Africa or the United Kingdom.*

*The freight to Bombay on coal from a British port was 12*s.* 9*d.* a ton in November 1925.

Price obtainable for the best Jharia coal c.i.f. Bombay.

24. The Coal Committee found that most consumers in Bombay would not purchase the best Jharia coal unless the c.i.f. price were lower than the c.i.f. price of Transvaal coal by 8 annas a ton, and their view is confirmed by the evidence we have taken. In the nature of the case the figure must be an average, and no doubt there are purchasers who would continue to buy South African coal even if the difference in the price were as much as Re. 1* a ton or more. It is safe, we think, to say that with Transvaal coal at Rs. 17 a ton c.i.f., the best Jharia coal should sell freely in Bombay at from Rs. 16 to Rs. 16-8 a ton c.i.f. According to information supplied by the Mining Association business was actually done at Rs. 16-4 and Rs. 16-8 in October 1925. Since the c.i.f. cost of selected Jharia is Rs. 17 a ton, the collieries must reduce their pithead price by from 8 annas to Re. 1 a ton in order to sell in Bombay. Prices and freights vary of course from time to time, and the prices we have given are illustrative mainly. Their value lies in the fact that it is variations in sea freights that are most likely to affect coal prices in Bombay for the next two or three years, and that on the whole the freights from Calcutta and from South Africa tend to rise and fall together. If the sea freight from Calcutta went up and raised the c.i.f. cost of the best Jharia coal to Rs. 18 a ton in Bombay, there would probably be a compensating increase in the price of South African coal and the relative position of the competitors would be unchanged.

Protection would not increase the price of Indian coal except possibly in Bombay and Sind.

25. It will be evident from the table at the end of paragraph 22 that South African coal cannot compete seriously with Indian coal in either Madras or Burma for the Indian collieries can under-quote Transvaal coal by Re. 1-8 a ton in Madras and Rs. 2-8 a ton in Rangoon, and still realise the same price at the pithead as for coal sold anywhere in India. It will be evident that the imposition of a protective duty would not affect the price of Indian coal in either province, for it is already regulated not by the cost of importation but by internal competition. It follows *a fortiori* that prices will not be affected in any area in India that is more easily accessible from the coalfields by an all-rail route than from the sea. In such areas foreign coal stands no chance, and so long as the productive capacity of the Indian mines greatly exceeds consumption, an increase of less than 2 per cent. in the demand is insufficient to cause a general rise in prices. The only question that remains is whether in Bombay and Sind, prices are likely to go up as a result of protection.

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* A difference of Re. 1 in the c.i.f. price means a difference of Rs. 1-8-0 to the consumer owing to the revenue duty of 8 annas a ton on imported coal.

Comparison of the price of Jharia coal at Bombay with the price of similar coal at Madras and Rangoon

26. The Mining Federation take the view that the duties they propose might result in an increase in the price varying from Re 1 to Rs. 3 a ton according to the quality of the coal, while the Mining Association believe that the rise would be small, and recognize that an increase in prices may be undesirable in the interests of the Coal industry itself. The best evidence available on this subject is to be found in the actual prices at which business has been done in recent months at Rangoon, Madras and Bombay. Indian coal already possesses in Rangoon the same advantage over imported coal as it would enjoy at Bombay if a protective duty of Rs. 2-8 a ton were imposed, and in Madras the advantage which a duty of Re. 1-8 a ton would give. Bombay is a rather larger market than either Madras or Rangoon and is a more important bunkering port. It is very unlikely that, if foreign competition were eliminated, the colliery owner would be able to realize a higher pithead price for coal sold at Bombay than for coal sold at the other two ports. Figures supplied by the Mining Association will illustrate this point and they are tabulated below:—

C.i.f. prices of selected Jharia at various ports.

	Rangoon	Madras	Bombay and Karachi
	Rs. A. P.	Rs. A P	Rs A P.
C. i. f. price	14 12 0	16 12 0	16 8 0 to 16 4 0
Deduct sea freight	4 4 0 to 3 12 0	5 4 0	6 8 0 to 6 4 0
Other transport charges	5 2 0	5 2 0	5 2 0
Total deductions	9 6 0 to 8 14 0	10 6 0	11 10 0 to 11 6 0
Pithead price	5 6 0 to 5 14 0	6 6 0	4 14 0

These figures confirm the statement of the Mining Association that "shipment sales generally, though not always, leave the seller a lower equivalent f.o.r. colliery price than other sales, sometimes 8 annas per ton, sometimes Re. 1, sometimes more. This would apply to all ports, but more especially to Bombay and Karachi." The pithead price of the coal sold at Madras was very nearly equal to the ordinary pithead price of selected Jharia at the time, but the price of the coal sold in Rangoon was less by nearly Re. 1 and in Bombay by Re. 1-10.

27. The natural inference from the figures cited in paragraph 26 is that the imposition of a protective duty might be followed by an increase in the price of Indian coal at Bombay and Karachi of from 8 annas to Re. 1 a ton.* It is doubtful, however, whether the price of bunker coal could be increased without driving away trade, and the producers would probably find that it paid them best to leave prices unchanged in order to make sure of capturing the market. In that case the higher price would be paid only by the domestic consumer. It is not certain that even he would have to pay more, but at the worst the rise in the price should not, on the average, exceed 12 annas a ton. It may be asked whether the competition of fuel oil and hydro-electricity might not of itself suffice to prevent any increase. We do not think that this factor will come into play. It is not necessary to go deeply into the question, but all the information supplied by the North Western and Great Indian Peninsula Railways, by the Bombay Chamber of Commerce, the Mill-owners' Association and Messrs. Tata and Sons, Limited, points to the conclusion that, with coal prices at their present level, an increase of about 12 annas a ton would be insufficient to induce such industrial concerns as still use coal to incur the capital expenditure necessary for the conversion of their plant. This is also the view of the Mining Association and Federation.

Extent to which protection might raise the price of coal in Bombay and Karachi

28. Our survey of the conditions affecting the Indian Coal industry has led us to the conclusion that the imposition of a protective duty might increase the sales of Indian coal by some 300,000 tons a year (*i.e.*, by less than 2 per cent.), that the price in Bombay and Karachi to domestic consumers might be raised at the most by about 12 annas a ton, and that in the rest of India prices would not be affected. The coal retained for domestic consumption at these ports is not more than half a million tons in all. As the annual sales of Bengal and Bihar coal amount to 16 million tons, the increase in the average price received by the mines would be about $4\frac{1}{2}$ pies a ton. It is evident from these figures that the consumer has little to fear from protection, and the producer equally little to hope. Where the conditions are such as prevail in the Indian Coal industry, protective duties are all but impotent whether for good or evil.

Effect of protection on the sales and prices of Indian coal.

29. Before concluding this Chapter it is necessary to mention briefly two points which will be more fully discussed in Chapter III but cannot altogether be ignored here. The mine-owners contend that, though they have to

Probability of increased sales of Indian coal at Bombay and Karachi even though protection is withheld.

* It is to be remembered that the prices quoted in paragraph 26 were fixed before the grant of the rebates which (making allowance for the grading fee of one anna) reduce the cost of transport by 11 annas a ton. The increase in price referred to in the text is not, therefore, an increase over the prices actually quoted in 1925, but an increase over the lower prices which the rebate renders possible.

accept Rs. 16-8 a ton c.i.f. for the best Jharia coal sold in Bombay, intrinsically it is worth Rs. 18-8 a ton, for it is better than Transvaal coal and as good as Natal coal which costs at least Rs. 18 a ton c.i.f. and Rs. 18-8 a ton when the present customs duty is added. If this be so, the question at once suggests itself whether the sales of India coal in Bombay and Karachi are not likely to increase substantially even though protection is withheld. A difference of Re. 1-8 a ton has sufficed to reduce the imports of foreign coal at Madras to negligible proportions, and the rebates recently sanctioned give the Indian mines an advantage of 11 annas a ton which they did not possess in 1925. In addition, the establishment of a Grading Board gives the purchaser a guarantee of quality which previously did not exist. If, in fact, the Indian coal which reaches Bombay is as good as the mine-owners claim it is, it should rapidly displace South African coal. In that case, the additional market which protection can give must be a great deal less than 300,000 tons.

Consumer's view of a rise in the price of coal due to a protective duty.

30. We have said that protection might raise the price of Indian coal in Bombay and Sind by 12 annas a ton, and this is correct from the producer's point of view. It makes no difference to him whether the duty is Rs. 2 or Rs. 10 a ton, for once the price reaches the level determined by internal competition it can go no higher. But the consumer looks at the case rather differently. A high rate of duty would make the importation of the best Welsh steam coal impossible and a consumer who required that quality would certainly not agree that the only difference to him was 12 annas a ton. The reply of the representatives of the Coal industry would presumably be that in place of imported coal he will be able to buy equally good or better Indian coal at the same price. The argument may have some force when the consumer uses South African coal at present, but it is inapplicable to a shipping line which wants the best Welsh steam coal for bunkering.

CHAPTER III.

Proposed Protective Duty on all Imported Coal.

Questions considered in Chapter III.

31. In this Chapter we shall discuss the proposal that protective duties should be imposed on all imported coal irrespective of the country of origin. The rates of duty proposed by the Mining Federation and the Mining Association will first be considered, and thereafter, the grounds on which protection has been claimed and the objections of which account must be taken. We shall postpone to Chapter IV the question of the South African railway rebate on export coal, and in this Chapter we shall deal with the demand for protection as if the issue of unfair competition has not been raised.

Rates of duty proposed by the Mining Federation.

32. The proposal put forward by the Mining Federation is that a duty of Rs 5 a ton should be imposed on Natal and Transvaal coal imported into India, and a duty of Rs. 10 a ton on all other coal. It will be desirable to explain how these rates have been arrived at, and this can best be done in tabular form. The figures are as follows:—

	Rs.	A.	P.
Raising cost of coal	5	0	0
Allowance for profit	1	0	0
Fair selling price of second class coal	6	0	0
Difference between the price obtainable for second class coal and the best Jharia	3	0	0
Fair selling price of the best Jharia at the pithead	9	0	0
Sea freight to Bombay and Karachi	8	4	0
Transport charges other than sea freight after allowing for rebates recently sanctioned*	4	14	0
Fair c.i f. price of the best Jharia in Bombay and Karachi	22	2	0
Present c.i.f. price of Transvaal coal in Bombay and Karachi	17	0	0
Duty required on South African coal	5	0	0

* The Federation have taken the transport charges at a figure higher by 6 annas a ton than the figure we have adopted On the other hand they have in this calculation ignored the fact that the best Jharia will not at present realize the same price as Transvaal coal but about 8 annas less.

The basis of the calculation is that Rs. 9 a ton is a fair price for the best Jharia coal, and the underlying assumption is that the industry is not receiving fair treatment if second class coal cannot be sold at a profit. The imposition of a duty of Rs. 10 a ton on coal other than South African is justified on the ground that British coal realizes in Bombay and Karachi a price higher than the price of the best Indian coal by Rs. 5 to Rs. 10 a ton. If the best Jharia coal is to be sold in Bombay at Rs. 22 a ton, the price of British coal must be raised to Rs. 29 a ton. North country coal has actually been imported into Bombay at Rs. 19 a ton and the duty required is therefore Rs. 10.

No reason for imposing a higher duty on coal other than South African

33. The reasons advanced for subjecting coal imported from countries other than South Africa to a higher rate of duty cannot be substantiated, and are not in accordance with the facts The coal which in the past has sold in Bombay at a price higher by Rs. 5 to Rs 10 a ton than the price of the best Indian coal is Welsh steam coal imported mainly for bunkering. The f.o.b. price of the best Welsh coal in November 1925 was about 23 shillings a ton, and it sold in Bombay c.i.f. at Rs. 24 to Rs. 25 a ton. Coal sold c.i.f. in Bombay at Rs. 19 a ton would cost about 15 shillings a ton f.o b. at a British port which was approximately the price of 'best Newcastle' at the same date If the difference in price between the two classes of British coal is a fair index of the difference in quality, the North country coal cannot be better than Natal coal which sells in Bombay at from Rs. 18 to Rs. 19 a ton, and if in fact its intrinsic quality were such as to make it worth more by Rs. 5 a ton than Natal coal, it must soon have ousted the latter, whereas the actual imports of this class of coal are quite small. In spite of the marked fall in British prices during 1925, British coal has gained no ground at the expense of South African coal, the imports from both countries being practically stationary. It is clear that a rate of duty high enough to keep South African coal out of Bombay and Karachi would be effective against coal from all other countries, except when the importer wants the very best steam coal for bunkering. That is an entirely special demand which India cannot meet.

Criticism of the proposed rate of duty on South African coal.

34. The calculations underlying the proposed duty of Rs. 5 a ton on South African coal are open to various criticisms. In the first place, it is not correct to take the freight from Calcutta to Bombay at Rs. 8-4 a ton (the Coal Committee's rate) if the price of Transvaal coal is taken at Rs. 17 a ton. When the Committee reported, the freight from South Africa was Rs. 8 a ton and the c.i.f. price of Transvaal coal Rs. 19 a ton. The present freight from Calcutta to Bombay is Rs. 6-8 a ton and from South Africa Rs. 6-10-8. In order to get a fair comparison the freight from Calcutta cannot be taken higher than Rs. 7 since both freights tend to rise and fall simultaneously. The duty required has there-

fore been over-estimated by Re. 1-4 a ton. This, however, is a point of detail and there are other and more fundamental difficulties. If a protective duty of Rs. 5 a ton is imposed on all imported coal, the Indian producer will not (as the Federation admit) be able to sell the best Jharia coal in Bombay for Rs. 22 c.i.f. Bombay, and we have shewn in the last Chapter that internal competition is likely to keep the price in the neighbourhood of Rs. 17 a ton. The Federation justify their proposal on the ground that the rate of protection should be fixed high enough to be effective even during periods when second class coal can be sold at a profit. What they mean is that, if internal conditions so changed that the best Jharia coal could again command a pithead price of Rs. 9 a ton, a duty of Rs. 5 a ton would enable them to realize Rs. 22 a ton in Bombay. To this argument there are at least two replies. In the first place, it would be a very serious burden on other industries in India if the price of coal again rose to the level suggested, and the very existence of some of them would be endangered. In the second place, if the best Jharia coal sold at the pithead for Rs. 9 a ton, the coal industry would be exceedingly prosperous and would stand in no need of protection. The Federation implicitly admit this in their representation to the Board, for after pointing out that the importation of foreign coal is only partly responsible for the depression in the Indian coal trade and that there have been other causes at work, they say "Had the other depressing factors been absent, probably there would have been no need for protection".

Impossibility of fixing the rate of duty on coal on the basis of a fair price.

35. The truth is that the conditions of the Indian coal industry make it impossible to fix the scale of protection with reference to a 'fair' price. That can always be done so long as the domestic output is only a fraction of the total consumption and the price is regulated by the cost of importation. In such cases it is necessary to determine what is a fair price for the Indian manufacturer, and it is usually possible to raise the price by the amount of the duty imposed. But where, as in the Coal industry, the domestic output is already more than 97 per cent. of the total consumption, and the price throughout India, except in two small areas, is regulated solely by internal competition, it is useless to determine a "fair" price, because protection will leave prices unchanged. The Federation's proposal of a duty of Rs. 5 a ton implies a misconception of what protection can do for an industry and what it cannot. There is no magic efficacy in protection, and protective duties can operate only when certain conditions are fulfilled. In the case of the Coal industry, it is only in Bombay and Sind that a protective duty could raise prices, and even there the present price of the best Jharia coal is only a little below the level at which internal competition must in any case hold it. It is for this reason that we have abstained from investigating the cost of production, and it is for this reason that the Mining Association have limited their proposals to the imposition of a protective duty of Re. 1-8 a ton

in addition to the existing Revenue duty of 8 annas a ton. A duty at this rate would do all for the industry that protection can do, and would provide some margin against the contingency that steps might be taken by South Africa to counteract the duty by lowering the price. With Transvaal coal at Rs. 19 a ton c.i.f. duty paid, the best Jharia coal could be sold in Bombay at Rs. 18 a ton so far as foreign competition is concerned, though internal competition might keep the price as low as Rs. 16-8 or Rs. 17 a ton. If a protective duty is imposed at all, Re. 1-8 a ton would, we think, be the appropriate rate.

Depression in the Coal industry.

36. Both the Mining Federation and the Mining Association lay stress on the fact that the Coal industry is passing through a period of depression when prices are low, and many mines have been forced to shut down or to curtail their production. Only first class coal, it is said, can now be sold at a profit and the raising of second class coal, except in mines where costs are unusually low, involves an actual loss. It is this depression which in their opinion creates the need for protection. The importation of foreign coal is not, they admit, the chief cause of the industry's troubles, nor can a protective duty restore prosperity, but it will provide an additional outlet for Indian coal, and so may alleviate the disease which it cannot cure.

Reasons given for declining coal prices.

37. The fall in the price of coal during the last two years has been rapid and substantial. Between November 1923 and November 1925 the price of selected Jharia dropped from Rs. 10-8 to Rs. 6-8 a ton, a decline of 38 per cent., and since then the price has gone down by another 8 annas. Similarly the price of Deshargarh coal fell from Rs. 12 to Rs. 7-8 a ton, of 1st class Jharia and 1st class Raneegunge from Rs. 9-8 to Rs. 5-8 and of 2nd class Jharia from Rs. 6-8 to Rs. 3-8.* In paragraph 5 of their representation the Mining Federation discuss the causes which have brought about the decline, and mention *inter alia* the importation of foreign coal, the extinction of most of the small industrial concerns which came into existence during the post-war boom, the loss of the export market, and a reduction in the demand for bunker coal in Indian ports. The suggestion clearly is that the loss of certain markets for Indian coal is responsible for the present low prices.

Present consumption of Indian coal higher than ever before.

38. It is quite true that the overseas markets and the bunker trade take less Indian coal than they did before the war, and it is also true that many industrial concerns which were purchasers of coal in 1920 have ceased to exist. But it is not a fact that there has been any decline in the total demand for coal in India, and it can be shown that the actual consumption has been higher in the last two years than in any previous period. In the follow-

* The 1923 prices are those given by the Mining Association. The Federation gave lower figures which we are unable to accept as correct.

ing statement the quantities of coal raised in Bengal and Bihar, and the quantities despatched by the East Indian and Bengal Nagpur Railways are given for the last 8 years:—

Year.	Quantity of coal raised in Bengal and Bihar and Orissa Millions of tons.	Quantities of coal despatched by the East Indian and Bengal Nagpur Railways. Millions of tons.
1918	19·0	15·0
1919	20·9	14·8
1920	16·2	15·2
1921	17·3	14·1
1922	17·0	13·1
1923	17·8	14·3
1924	19·1	16·5
1925	18·7	16·2

It will be seen that the output of coal was higher in 1924 than in any previous year except 1919, and higher in 1925 than in any year except 1918, 1919 and 1924, but whereas in 1919 less than 15 million tons were despatched by rail, more than 16 million tons were despatched in each of the years 1924 and 1925. The stocks at the collieries have admittedly diminished, and as there is no evidence of an undue accumulation of stocks elsewhere, there must have been a real increase in consumption not only as compared with the years 1921 to 1923, but also with the boom period from 1918 to 1920. The reduction in exports and in bunkering has been more than counterbalanced by the growth of the internal demand.

Reasons for increased consumption of coal.

39. The chief reason why more coal is now consumed in India than ever before is the growth of the Iron and Steel industry. During the last two or three years the exports of pig iron have rapidly increased and are now an important branch of India's foreign trade. For every ton of pig iron exported from $1\frac{1}{2}$ to $1\frac{3}{4}$ tons of coal are burnt in the coke ovens and blast furnaces, while for every ton of finished steel manufactured nearly 4 tons of coal are consumed. The rise in the output of Indian steel from about 125,000 tons in 1923 to about 300,000 tons in 1925, means an increase in the consumption of coal by 700,000 tons a year. If the manufacture of steel at Jamshedpur had ceased (and this was

inevitable if steel were not protected), over a million tons of coal, which are now used in making steel, would have been thrown upon the market and prices would have been still further depressed. It is impossible to ignore the fact that the Coal industry has benefited to a far greater extent from the protection granted to steel than it can possibly do from any protective duty on coal.

Low price of coal due to over-rapid development

40 The present low prices of coal must be attributed not to a decrease in consumption, for there has been none, but to the fact that, though the demand has risen, the productive capacity of the mines has increased still faster. From 1917 to 1921 the industry was exceedingly prosperous. The demand for coal was growing, foreign supplies were unobtainable, prices were steadily rising and the most sanguine hopes were entertained as to the prospects of the future. The natural and inevitable result was that very many new mines were opened and development in the older collieries was vigorously pushed on. Between 1914 and 1924 the number of coal mines in Bengal and Bihar and Orissa rose from 555 to 872,* while in the latter year 1·9 million tons of coal were raised in 215 mines which are not mentioned in the Returns for 1920 and presumably were not then in existence. In the event it has proved, as in many similar cases, that the prospects of the future had been overrated, and that the mines could produce much more coal than they could sell. In these circumstances a heavy fall in prices was inevitable, though it was retarded for a time by the wagon shortage So long as the railways were unable to move as much coal as the mines could raise and sell, the quantity of coal effectively on the market was restricted, there was increased competition for the coal that could be moved, and the price in areas, where foreign competition is unfelt, was maintained at an artificial level. It was not until the railways could supply wagons promptly to any colliery that asked for them, that the competition between mines to secure orders became intense and prices fell to their natural level.

The excess of productive capacity over demand not a sufficient ground for protection.

41. The fact that productive capacity has for the time being outstripped a growing demand is not a sufficient ground for protection, for in such circumstances there is always a danger that the unfit may be shielded from the consequence of their own miscalculations. Some of the new mines may be favourably situated and able to raise coal cheaply, but in the nature of the case there must be many which would never have come into existence but for the boom, and cannot hope to survive under normal conditions They were started by their promoters in the hope that profits would be large, and the fact that, with prices at their present level, they cannot raise coal except at a loss, gives them no claim to State assistance. The point is not indeed of much consequence in this enquiry, for the increase in sales resulting from a protective duty would do very little to enable

* Of these only 696 raised coal during the year.

the less efficient collieries to survive. But even if they are left out of account, it has still to be shewn why the State should intervene on behalf of an industry which enjoys great natural advantages and is less exposed to foreign competition than almost any other industry in India. Before a valid claim to the imposition of a protective duty on coal can be established, it must be shewn that special circumstances exist which entitle this industry to exceptional treatment. One of the reasons suggested by the applicants for protection, *viz.*, the South African railway rebate on export coal we shall consider in Chapter IV. The others will be discussed in this Chapter.

The claim of the Coal industry to assistance from the State.

42 Neither the disappearance of the industrial concerns which sprang up during the boom, nor the reduction in bunkering, in so far as that is due merely to the substitution of fuel oil for coal or to a decrease in the number of ships calling at Indian ports can give the Coal industry a valid claim to special State assistance. Protective duties cannot restore to an industry markets which have ceased to exist. The representatives of the Coal industry, however, contend that the loss of the overseas markets* to coal from other countries was the direct result of the various restrictions and controls to which coal traffic was subjected in the years following the war. In particular the embargo on the export of coal came at a time when the shortage of shipping was disappearing, and Indian coal must in any case have had a hard struggle to hold its own in the neutral markets of Ceylon and the Straits The embargo removed Indian coal from the field altogether, and gave its rivals time to acquire a firm grip on these markets. The coal owners argue that, though the action taken was no doubt dictated by regard for the national interest, yet in so far as injury was inflicted on it, the Coal industry has now a valid claim to special help. Shipments of coal to Bombay and Sind were not prohibited but were only permissible under licence, and the supply of railway wagons was inadequate and was strictly controlled, so that the coal trade with these ports was carried on at a double disadvantage. These conditions, it is urged, were largely responsible for the dislike of Indian coal which grew up at Bombay and Karachi as well as in foreign ports and led consumers to prefer South African coal.

The embargo on coal exports not a reason for imposing a protective duty on coal.

43. The embargo may be partly responsible for the displacement of Indian coal in Ceylon and the Straits Settlements, but as shipments to Bombay and Karachi were not prohibited it could not affect these markets. The argument apparently is, however, that the embargo was imposed in the interests of the consumer who should not complain if he is asked to pay more for his coal now in order to help the Coal industry. The plea lacks cogency for at Bombay and Karachi the

* This term includes Bombay and Karachi as well as such export markets as Ceylon and the Straits Settlements.

interests of consumers could more easily than elsewhere be safeguarded without an embargo on exports, and the shortage in both places was in fact relieved by heavy imports from abroad. It was not the Bombay and Karachi consumers who derived the greatest benefit from the embargo, yet it is they, and they only, who might have to pay more for the coal they buy if the duty is raised. If an industry is subjected in the national interests to some special restriction by which it is injured, it may have a valid claim to special assistance later on, but not necessarily to assistance in the form of a protective duty. It was the export trade which suffered from the embargo, and the measures which might make its recovery possible are not within the scope of this enquiry. Whatever they may be, a protective duty on coal is not one of them.

The prejudice against Indian coal in overseas markets.

44. The best Jharia coal, it is claimed, is intrinsically superior to Transvaal coal and as good as Natal coal, yet consumers who are content to pay Rs. 17-8 a ton (this figure includes the duty of 8 annas a ton) for Transvaal coal, and Rs. 18-8 and Rs. 19* for Natal coal, will not pay more than Rs 16-8 a ton for the best Jharia. This is said to be due to a prejudice created by the condition and quality of some of the coal shipped to Bombay in recent years at the time when licences were necessary. Protection is therefore needed until consumers have realized that Indian coal is worth buying and can be obtained of satisfactory quality. It is obvious indeed that, if the facts are as stated, protection is no more than a temporary expedient, the need for which will soon disappear. If the Indian mines could sell the best Jharia coal in Bombay for Rs 17 a ton, they would realize as high a price at the pithead as they can for coal sold anywhere else in India, and there would be no difficulty in doing this with Transvaal coal at the same price, if the purchaser believed that the Jharia coal was worth Re 1 more. Unfortunately he has still to be convinced of the fact.

The 'prejudice' justified by actual quality of much Indian coal sent to Bombay and Sind.

45. Whatever the reasons for the 'prejudice' may be, there is no doubt at all as to the facts. Many consumers in Bombay and Karachi will not buy the best Indian coal in preference to Transvaal and Natal coal unless the difference in price is at least Re. 1 a ton in the first case and Rs. 2 or Rs. 2-8 a ton in the second. The evidence taken by the Coal Committee and by the Board in this enquiry shows definitely that, consumers in Bombay and Sind dislike Indian coal because the supplies which reached them in the past were often of inferior quality, or not what they were represented to be. As the Coal Committee put it, "The Bombay importer has to be convinced not that there are good Indian coals but that he can be certain of getting them." The higher price he pays for South African coal is to all intents and purposes an insurance premium paid to ensure

* The Mining Federation give Rs. 19 a ton as the c i.f. price of Natal coal which the duty would increase to Rs. 19-8-0. The evidence indicates, however, that the price is actually a little lower.

that the quality is right. The opinion of the consumer is weighty, for his sole desire is to get the best value he can for his money, and he has no motive for paying a higher price unnecessarily. It is not uncommon to find that imported commodities command a higher price than similar goods made in India, and where the Indian industry is new, the fact may often be due to a prejudice in the mind of the purchaser. But the dissatisfaction with Indian coal cannot be explained in this way. It is deeply felt in markets which for many years drew the bulk of their supplies from Bengal and by purchasers who had been in the habit of using nothing else. If they consider that Bengal coal is inferior to imported coal, it must be because the coal they received was in fact inferior. We do not of course suggest that all the Indian coal shipped to overseas markets in recent years has been unsatisfactory, for, in the words of the Coal Committee, "exporters who tried to maintain a high standard have suffered from the action of those who neglected everything but the chance of immediate profit." But the depth and unanimity of the feeling expressed by witnesses to the Coal Committee in every overseas market except perhaps Madras and Rangoon, cannot be accounted for except on the supposition that the evil had gone far, and that a considerable amount of unsatisfactory coal was leaving the port of Calcutta.

Explanation of the 'prejudice' given by the mine owners.

46. Both the Mining Federation and the Mining Association have endeavoured to account for the prejudice against Indian coal, but their explanations are inadequate. The specific question put to them was:—

> "Do you consider that the prejudice referred to is justified by the condition and quality of the coal actually sent to Bombay in recent years?"

To this question the Federation gave the following answer:—

> "This again is a question of more or less historical interest and is little instructive to study now. It can nevertheless be admitted that in the years 1919 and 1920 when coal prices were high, the shippers who were generally middlemen had no doubt to make up a composite cargo and ship a mixture of different grades of coal in order to adjust prices. But the real difficulty which is now experienced by the Bengal coal trade in retrieving its position in Bombay is not ultimately one arising out of these circumstances but is such as is attendant on any attempt on the part of any trade to displace competition which has captured a market."

The Association's reply to the same question is as follows:—

> "Several cargoes of 'mixed' inferior coals which were shipped in the early days of the post-war period might have

> helped to create this prejudice. At this time, anybody —whether a Colliery owner or not—who wished to ship coal was granted a licence, no check being put on quality. In this connection, the difficult conditions under which ships were loaded in past years by reason of the uncertain and short wagon supply must receive serious consideration."

In oral examination these replies were to some extent amplified, but did not become perfectly explicit. Something was said of the misconduct of the middlemen who handled the trade of the overseas markets, of the inadequate wagon supply which often made it impossible to draw shipments from the most suitable collieries, and of the restrictions to the free movement of traffic in the first four years after the war (*e.g.*, the necessity of obtaining licences for exports to Bombay and Karachi), but it was not clearly explained how these restrictions had produced such unfortunate results.

Dissatisfaction with Indian coal not due mainly to shipment conditions.

47. It will be seen that both the Federation and the Association attribute the unpopularity of Indian coal to the poor quality of part of the coal shipped in the post-war years, and the Federation specifically mention the shipments of 1919 and 1920. It is certainly probable that the 'prejudice' grew up then, and in 1921 and 1922, when foreign supplies again reached Bombay, purchasers were in a position to contrast the quality of British and South African coal with what they had been receiving from Bengal. But in 1919 and 1920 Bombay was getting only a fraction of its requirements by sea. In the two years from April 1919 to March 1921 the quantity of Bengal and Bihar coal transported to Bombay by rail was nearly four times* as large as the quantity shipped from Calcutta to the same destination. If the quality of the coal sent by rail had been satisfactory in all respects, it is impossible to believe that the condemnation of Bengal and Bihar coal in Bombay would have been so hearty or so unanimous. It would be unfair to suggest that the conditions of the early post-war years had nothing to do with the unsatisfactory quality of the Indian coal supplies at that time. Unquestionably, both the restrictions on shipping and the wagon shortage made it more difficult for consumers to get the coal they wanted, or any Indian coal on which they could rely. The wagon shortage in particular led to excessive stacking at the mines and consequent deterioration of the coal stacked and was responsible also for a reduction in the quantity of first class coal which could be marketed. But this is by no means the whole story.

Responsibility of the Coal industry for the unpopularity of Indian coal.

48. We do not think that the two bodies, who represent the coal industry in Bengal and Bihar, have been able to show that the mines are innocent sufferers in this matter, and that the whole responsibility rests elsewhere. It is no

* 1,661,837 tons by rail as against 454,358 tons by sea.

sufficient explanation of the 'prejudice' that a few bad cargoes were shipped in the early days "of the post-war period." The feeling against Indian coal is far too widespread and far too deep-rooted to be accounted for in this way. It extends to every over-seas port to which Bengal coal was exported, but it is not by any means confined to these ports. Again and again during the Board's enquiries (*e.g.*, into steel and cement) witnesses who receive their coal by an all-rail route have complained of a marked deterioration in the quality of the Indian coal supplied to them in the first years after the war, and the consequent difficulties with which they were faced. During the first three years after the war the demand for coal was insistent, and an absolute shortage was constantly threatened. A good price could be obtained for almost any quality of coal, and the temptation to push sales at the expense of quality must have been very great. It would seem that the temptation proved too strong for many suppliers, and that much indifferent coal found its way to the various markets. If this be so—and we do not think the evidence permits any other conclusion—the mine owners cannot fairly ask that the results of the mistakes made should be rectified entirely at the public expense or at the expense of the consumer. On the recommendation of the Coal Committee rebates have been granted which reduce the cost of transporting coal to Bombay and Karachi by 11 annas a ton, and a Grading Board has been established whose certificates should do much to satisfy importers that the coal they buy will be what it purports to be. These are the obvious measures for overcoming the 'prejudice' which is the only hindrance to the free sale of Indian coal in Bombay and Sind, and if the coal owners desire still further assistance, the onus lies heavily upon them to show that they themselves are not partly responsible for the unpopularity of Indian coal. We do not think they have succeeded in doing so.

Unfairness of compelling consumer to purchase Indian coal.

49. If, as we believe, the dislike of Indian coal in Bombay and Karachi is grounded not on prejudice but on the actual condition and quality of past supplies, a method of assisting the industry which operates by penalizing the consumer is not free from objection. We do not lay great stress on this point, for, as we have already explained, the increase in price even at Bombay and Karachi is likely to be quite small. It is worthwhile, however, to remember what the consumer's point of view may be. He turned to South African coal because he so often received bad coal from Bengal and Bihar, and the fact that he got bad coal in the past will not seem to him a good reason why the coal he prefers should be made dearer, or why he should be coerced into buying the coal that he found unsatisfactory. It is hardly a sufficient reply to argue that he will be getting an equally good or better coal at a price no higher than he pays for Transvaal coal at present. The proof of the coal is in the burning, and if he is satisfied that he will get good Indian coal, he will be ready enough to buy. He may need

a little persuasion but in every branch of trade it is the business of suppliers to keep in close touch with their markets and take such steps as may be necessary to attract custom. It is not clear that the Indian Coal industry has been fully alive to the needs of the situation, or sufficiently energetic in dealing with it. The Coal Committee in paragraph 120 of their Report, after mentioning that the number of firms engaged in the coal trade in the overseas ports was small, wrote—

> "We cannot but think that this fact should have made it comparatively easy for the exporters of Indian coal to renew touch with their old markets when the embargo was removed had they taken energetic steps to that end immediately. If they had done so, they would have learnt at once of the dissatisfaction felt with the quality of Indian coal and could have taken immediate steps to remove the prejudices which lapse of time has only made more deeprooted and consequently more difficult to eradicate. We would strongly emphasise that, if the exporters of Indian coal are to recover and to retain their overseas markets, they must endeavour to secure closer personal contact with those markets than they have had in the past. It is not necessary, and it would be very expensive for the trade, to have permanent representatives at the principal overseas ports, but if frequent visits were paid to those ports by representatives of individual firms or of a combination of firms, they should, we consider, have valuable results. In Bombay, for example, they might enable exporters of coal to get into direct touch with consumers to the mutual advantage of both."

Probable increase of shipments of Indian coal to Bombay and Sind without protection.

50. Our conclusion is that the Coal industry cannot fairly ask Government to do more than it has already done to reinstate Indian coal in the good opinion of Bombay and Karachi importers, and that, in the special circumstances of the case, a method of assistance which might lay a burden on the shoulders of the consumer is unfair. But there is another aspect of the matter (already mentioned in Chapter II, paragraph 29) which deserves attention. It is not likely that imports of foreign soal into Bombay and Sind will ever cease altogether, for there will always be some consumers who have definite reasons for preferring a particular foreign coal, *e.g.*, the importers of the highest quality of Welsh steam coal. But it certainly seems probable that, even without protection, Indian coal will before long supply a proportion of the total demand in Bombay and Karachi at least as large as it did before the war. It has been shown in Chapter II how during the last three years Indian coal has been steadily recovering its position in these markets, and now that transport charges have been reduced and a Grading Board established, progress should be

accelerated.* The reductions in the coal freight by rail to Bombay announced by the Commerce Member, when introducing the Railway budget for 1926-27, should also give material help. From the 1st April 1926 the freight on coal from Jharia to Bombay will be Rs. 13-12-0 a ton whereas the transport charges *viâ* Calcutta amount at present to Rs. 12-12 a ton made up as follows:—

	Rs.	A.	P.
Charges up to the time of shipment . .	4	8	0
Sea freight	6	8	0
Landing charges	1	12	0

In addition there is the cost of conveying the coal from the bunder to the mill which, according to the evidence taken by the Coal Committee, is about Rs. 2-8 a ton. The terminal charges on coal brought by rail to a mill and unloaded in the mill siding are not precisely known, but it would seem that, even with the sea freight as low as Rs. 6-8 a ton, the all-rail route to the Bombay mill will be the cheaper and would certainly be so if the sea freight were higher. This fact may of itself serve to hold the sea freight at a reasonable level. If the shipments of coal from Calcutta to Bombay and Karachi were to increase by about 100,000 tons, 75 per cent. of the demand in these areas would be met by Indian coal. and this is the actual percentage of Indian coal supplied in 1910-11 and 1911-12 when the imports of South African coal were negligible. If the coal sent to these markets is in fact superior to Transvaal coal, it should not be very long, with prices at their present level, before 100,000 tons of foreign coal are displaced by Indian coal. But in that case the increase in output which protection can give is not 300,000 tons but 200,000 tons for an increase in sales of 100,000 tons at the expense of foreign coal is probable whether protection is given or withheld.

National importance of the Coal industry and unsalability of second class coal.

51. The remaining reasons suggested for according exceptional treatment to the Coal industry hardly require detailed discussion. It is argued by the Mining Federation that coal deserves protection on national grounds, and that

* The following table compares the figures for January 1926 with the monthly average of 1925 —

	January 1926. Thousands of tons.	Monthly average 1925 Thousands of tons.
Imports	22·9	40·7
Exports	33·3	18·0
Excess of imports	..	22·7
Excess of exports	10·4	...
Shipments from Calcutta to Indian ports	116·0	85·5

The figures are interesting but it is unsafe to found any inference on the results of a single month.

therefore the conditions which should ordinarily be satisfied, are not applicable. It is a sufficient reply to this argument that, while it is unquestionably important that India's coal resources should be developed on an adequate scale, so that they may be ready for use in an emergency, it is a very small matter whether the annual output of Indian coal is 21 million tons or 21·3 millions. In this case protection cannot lead to any development worthy of the name. Another plea put forward by the same body is that, at present prices, second class coal cannot be sold except at a loss, and if protection is not given, will disappear from the market altogether. This line of argument admits of at least two answers. It is exceedingly doubtful whether protection would do anything at all for second class coal. It is possible that, if more first class coal were sent to Bombay and Karachi, it would be taken off the market in Bengal and Bihar and so create a larger demand for second class coal. The evidence we have taken, however, rather points to an opposite conclusion. It was stated by the representative of the Mining Association that the Bombay and Karachi demand could be met by an increased production of first class coal which would leave the amount of first class coal on sale in Bengal and Bihar undiminished. This may very well be so. The difference of Rs. 3 a ton between the price of first and second class coal means a percentage difference varying from 50 per cent. at the pithead to 30 per cent. at Calcutta and second class coal may be equally good value, price for price, in that area. But it is quite another matter in Bombay or Karachi where the percentage difference to the consumer is less than 20. Only first class coal can stand the heavy freight charges, and it is quite possible that an increased demand at Bombay could be met by a larger output of first class coal. The excess quantity is not produced at present because it does not pay to raise it in the face of the competition of second class coal in the vicinity of the coal fields. A new demand from an area where second class coal stands no chance, might make it worth while to raise more first class coal. The second objection is of a different kind. It is not a merit in coal to be second class, and the only reason why such coal finds a sale at any time is because enough first class coal to go round cannot be raised at competitive prices. It is quite impossible for Government to determine what quality of coal is worth producing, and to find a market for all coal that does not fall short of the standard. That is a matter which must be left to the operation of the ordinary economic laws.

Summary of the reasons against a protective duty on all imported coal.

52. Our examination of the proposal to place a protective duty on all imported coal has led us to the conclusion that the case has not been made out. The first condition laid down by the Fiscal Commission is satisfied for the industry possesses great natural advantages, but the second condition is not satisfied, for protection would not result in development. The increase in the sales of Indian coal would not exceed 300,000 tons at the outside, and an increase of at least one-third of that amount is probable even if the duty is not raised. The third condition is satisfied ...

this sense that the best Indian coal could even now be sold at Bombay and Karachi in competition with South African coal at a price which would give the colliery owner the same price at the pithead, as for coal sold anywhere else in India, were it not that many consumers in these two cities will not buy it, unless its price is about Rs. 2 a ton less than the price of the best South African coal. The best Indian coal is not in fact inferior to the best South African coal, but the opinion of importers in the west of India is justified by the condition and quality of much of the coal received from Bengal in recent years. It is for the mine owners to remove the prejudice of which they complain, and there is no reason why they should not succeed in doing so before long, now that coal certified by the Grading Board when shipped from Calcutta receives a rebate which reduces the cost of transport by 11 annas a ton. The bad condition and quality of much of the coal shipped to Bombay and Karachi in recent years is attributable in part to the restrictions imposed on coal traffic in the first years after the war, but is due also to the default of the coal industry itself or of some of its members. In these circumstances, it would be unfair to put pressure on consumers in western India by making the coal they prefer more expensive. The depression from which the industry is suffering is due not to any falling off in the demand for coal but principally to over-rapid development—the result of a period of high prices. This depression is not in itself a sufficient reason for imposing a protective duty, and none of the reasons for according special treatment to the industry suggested by the colliery owners warrants such action. An increase in the duty would leave prices in the greater part of India unaffected, and even in Bombay and Karachi the maximum increase possible at present is about 12 annas a ton. A protective duty on all imported coal is not, therefore, open to attack on the ground that it would be a heavy burden upon industries. But in principle all measures which tend to raise the cost of fuel are prejudicial to industrial development, and should not be taken unless the reasons for them are cogent and convincing. For these reasons we are unable to recommend the imposition of a protective duty on imported coal generally. There still remains the question whether a duty on South African coal only could not be justified on the ground of unfair competition and to it we now turn.

CHAPTER IV.

Proposed countervailing duty on South African coal.

Complaint of the mine owners that the competition of South African coal is unfair.

53. From the figures in Appendix III it will be seen that two-thirds of the coal imported into India annually is South African, and it is these imports which are the special grievance of the Indian coal industry. The mine owners contend that, without substantial assistance from the Union Government, South African coal cannot compete successfully with Indian coal in any Indian market. The South African railways are the property of the State, and in order to develop the export trade the coal freights on these railways, it is said, have been so adjusted that export coal is conveyed to the ports at a rate which is uneconomic and does not cover the cost of transport. The concession to the export trade takes the form of a rebate of a very large part of the freight paid on all coal that is exported, and the plea advanced is that this rebate is indistinguishable from a subsidy. The competition of South African coal is therefore unfair, and the Indian coal is entitled to protection against it. This claim, it is urged, would still hold good even if no sufficient reasons were found for imposing a protective duty on foreign coal generally. The tariff legislation of many countries has armed the executive Government with power to prevent the injury which domestic industries must suffer if bounty fed or subsidized commodities are allowed free entry, and the principle is accepted both by countries which have definitely adopted protection and by some which have not. The Indian Tariff Act indeed already contains a section (8A), inserted in 1899, which contemplates the impositions of a countervailing duty when bounties are paid, directly or indirectly, on the exportation of articles from other countries, and the power given by the Legislature should now be exercised. Such in substance is the case which we have to examine, and it will be necessary first to explain what the facts are as regards the South African railway rebate, then to determine, as far as our information permits, whether the rebate amounts to a bounty or subsidy, and finally to consider whether it is advisable in the circumstances to impose a countervailing duty on South African coal.

Coal freights on the South African railways.

54. The history of the railway freight on coal exported from South Africa is long and complicated and has been fully discussed in a separate note by Mr. Ginwala. It will suffice to state the main facts more briefly here. The exact date when special concessions to export coal were first granted by the South African Railway Administration has not been ascertained, but they were certainly in existence before 1916 and probably as early as 1913. There have been several variations in the system, but the general

outlines have remained the same. There is, in the first place, the ordinary freight on coal which is consumed in the country itself and is neither bunkered nor exported; there is, in the second place, a uniform* freight on bunker and export coal, which before the war was lower, and since the war has been higher, than the ordinary rate; and, in the third place, a rebate of part of the freight is granted on all coal exported and part of the coal bunkered. In effect, therefore, there are three separate tariffs applicable respectively to—

(1) coal for internal consumption,

(2) the bulk of the bunker coal, and

(3) all export coal and part of the bunker coal.

The following table gives the actual rates charged at various dates per ton of 2,240 pounds† :—

—	Domestic rate.	Bunker rate.	Export rate	Difference between the domestic rate and the export rate.	Difference between the bunker rate and the export rate.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Up to 1916 . .	0 10 11½	0 6 8	0 5 6½	0 5 5	0 1 1½
1920 . .	0 12 7	1 3 0	0 9 1	0 3 6	0 13 11
1921 . .	0 12 7	0 15 5	0 6 3½	0 6 3½	0 9 1½
1922-25 . .	0 12 7	0 15 0	0 6 3½	0 6 3½	0 8 8½

The special concessions granted in respect of bunker coal are as follows :—

(1) In 1920 the export rebate was granted on coal bunkered by vessels which carried full cargoes of export coal.

(2) In 1921 the concession was extended to vessels carrying cargoes of export coal of not less than three quarters of their total capacity.

(3) In 1922 it was again extended to vessels carrying 5,000 short tons (4,464 long tons) of export coal whatever their capacity.

(4) Finally in 1925 the rebate, which had hitherto been paid only on the bunker coal required on the outward voyage, was also granted on coal burnt on the return voyage to South Africa.

* In 1921, different rates were applicable to bunker and to export coal, but the statement in the text is correct for other years.

† Throughout this Chapter the tons referred to are "long" tons of 2,240 lbs. except when "short" tons (2,000 lbs.) are specifically mentioned.

Difference between export and domestic freight—the primary measure of assistance given to export trade.

55. Except in 1921 (when different rates were fixed for bunker and export coal) the amount of the rebate granted is equal to the difference between the bunker rate and the export rate in the table in paragraph 54. In all the discussions on the subject that have come to our notice, it has been assumed that the rebate is a correct measure of the special assistance which the South African coal trade receives. This view is, we think, erroneous, for it ignores the fact that up to 1916, the bunker rate was very much lower than the ordinary rate, and since the war appreciably higher. If the rebate is equated with the bounty, the result is to under-estimate the concession granted to the export trade before the war, and to exaggerate the help it has received since the war. The natural measure of the special assistance granted to export coal is (subject to certain qualifications) the difference between the domestic rate and the export rate. If export coal paid the usual domestic rate it would obviously be impossible to argue that it was receiving any special help from the Government, and no complaint of unfair competition could stand. It is only in so far as export coal is charged less than the ordinary domestic rate that it receives specially favourable treatment. It will be seen from the table in paragraph 54 that (except in 1920 when it was smaller) the concession, both before and after the war, means the transport of export coal at half the domestic rate.

The higher rate on bunker coal

56. The extent of the special help which the South African export coal trade receives is measured primarily by the difference between the domestic and the export railway freight from the coal fields to the ports, but there are two other factors to be taken into account of which the first is the higher rate charged on bunker coal. We have alluded in earlier paragraphs to the fact that the bunkering trade is very sensitive to price, and that an increase in the price of coal at one port is likely to drive the trade to cheaper markets. In these circumstances it is natural to enquire how it has been possible for the South African Railways to charge bunker coal at a rate which exceeds the domestic rate by 2s. 5*d*. a ton. The explanation is, we think, to be found in the long distances which separate South African ports from those of Australia, South America, India and the Far East, and compel ships that touch at a South African port to replenish their bunkers before proceeding. Moreover, even with the higher railway freight on bunker coal, Durban and Delagoa Bay may still be relatively cheap bunkering ports as compared with any alternative port to which vessels might resort. In these circumstances it may be quite possible to increase the freight on bunker coal to some extent without driving away trade and so causing loss of traffic to the railways. The higher rate on bunker coal must, we think, be regarded as an application of the familiar principle "all that the traffic will bear," a maxim which has much to do with shaping railway tariffs in most countries. If our view is correct, the increase in the

bunker rate at once makes it possible to effect an equivalent reduction in the export rate without loss of revenue, and if the reduction in the export rate led to larger exports, the railways would gain from the resulting increase in the traffic they carried. In such a case the adjustment of rates directly benefits the income of the line, and would be sanctioned by any railway administration, whether it was acting on behalf of the shareholders of a company, or, as in South Africa, on behalf of the national Government. No question is involved except such as constantly lead to freight changes on all railways. During the three years 1922-23 to 1924-25, the annual exports of coal from South Africa averaged 1,592,209 tons, while the coal bunkered at South African ports amounted to 1,578,586 tons a year, *i.e.*, for every ton of coal exported a ton of coal was bunkered. It follows that, so long as the bunker rate was higher by 2*s*. 5*d*. a ton than the domestic rate, the export coal could be carried at a rate lower by the same amount without loss of revenue, because the railway receipts on bunker and export coal together would be the same as if both had been carried at the domestic rate. This factor must, we think, be taken into account in determining what subsidy, if any, the coal exported from South Africa receives.

Payment of the export rebate on bunker coal used by ships carrying export coal

57. In the last paragraph it was assumed that the whole of the coal bunkered in South Africa was carried at the bunker rate, and the fact that large quantities of bunker coal receive the export rebate was ignored. It is not possible to estimate, except very approximately, what proportion of the bunker coal is carried at the export rate. We are informed* that the voyage from Durban to Bombay occupies about 17 days and that the coal consumption of a vessel of 5,000 tons capacity steaming 10 miles an hour would be at the rate of 25 to 30 tons a day. The consumption of a vessel of 10,000 tons capacity would be about double. On that basis a vessel carrying a full cargo would burn during the voyage a quantity of coal equal to 9 per cent. of the coal she carried. But there are numerous complications for which some allowance must be made. The vessel may be carrying coal only to three-fourths of her capacity or, if her capacity exceeds 6,000 tons, may be carrying only 4,500 tons.† Also the vessel may be carrying part of the coal for the return journey in addition to the coal required on the journey out. In all these cases the percentage would be higher than for a vessel making a single voyage with a full cargo. Thus, for example, if a ship of 10,000 tons capacity with a cargo of 4,500 tons of coal carried bunker coal sufficient for a three weeks voyage the percentage would be 25. The extent to which the cost of the sea transport of coal would be reduced by the

* Messrs Mackinnon Mackenzie and Company state that "the daily consumption at sea of a reasonably up-to-date cargo steamer of the capacity of 5,000 tons would be about from 25 to 30 tons, and for a steamer of 10,000 tons from 50 to 60 tons. These figures are based on a daily run of about 240 miles, *i.e.*, 10 knots per hour" For the distances between Calcutta, Durban and Delagoa Bay and certain ports, see Appendix VIII.

† The minimum quantity which the larger vessels must carry in order to earn the rebate is 4,164 long tons.

rebate on bunker coal carried by coal exporting vessels would vary with every voyage according to the proportion of coal carried, and according to several other factors none of which can be exactly determined. In these circumstances all that is possible is to give a maximum figure, and we do not think that the quantity of bunker coal, which receives the export rebate, can exceed 20 per cent. of the quantity of coal exported. That proportion would be high enough to enable a 5,000 ton vessel with a full cargo to perform the double journey from Durban to Bombay and back, a 10,000 ton vessel with 5,000 tons of coal to perform the outward voyage only, and a vessel loaded to three-fourths capacity to perform the outward voyage and part of the return voyage. The proportion of bunker coal which actually receives the export rebate may be less than 20 per cent. on the average but to what extent it is impossible to say.

Sacrifice of revenue by the South African railways in the interests of the coal export trade

58. If 20 per cent. of the bunker coal is carried at the export rate, then the revenue sacrifice by the South African railways on behalf of the export coal trade can be estimated. For every ton of coal exported four-fifths of a ton of bunker coal is carried at the bunker rate and one-fifth of a ton at the export rate. The calculation is as follows:—

	£	s.	d.
Freight paid on 4/5ths of a ton of coal at 15 shillings a ton	0	12	0
Freight paid on $1\frac{1}{5}$th tons of coal at 6*s.* $3\frac{1}{2}$*d.* a ton	0	7	$6\frac{1}{2}$
Total freight paid on 2 tons of coal of which one ton is exported and one ton is bunkered . . .	0	19	$6\frac{1}{2}$
Freight on 2 tons of coal at the domestic rate—12*s.* 7*d.* a ton	0	25	2
Revenue sacrificed for every ton of coal exported .	0	5	$7\frac{1}{2}$

The basic assumption is that, so long as the freight paid on bunker and export coal together is not less than what would be paid at the domestic rate, no question of bounties or subsidies can arise. The above calculation shows that, unless the bunker coal carried at export rates is more than one-fifth of the total quantity of coal bunkered the subsidy cannot exceed 5*s.* $7\frac{1}{2}$*d.* a ton. The sacrifice of revenue by the South African railway administration on the bunker and export coal together seems to us the most accurate test to apply in determining the special assistance which the export trade receives. So long as no revenue is sacrificed, an adjustment of railway rates, which favours export coal, cannot fairly be regarded as equivalent to a bounty. It may be argued on the other hand that, though the grant of the rebates on bunker coal carried by coal exporting vessels is intended to lead to a reduction in the sea freight on South African coal, it may not in fact do so. It is a sufficient reply that the only conceivable object of giving the concession is to obtain a reduction, and that the system has remained in force for five

years, and has been three times extended during that period. It is a fair inference that, at any rate in the opinion of its authors, the concession has been effective in keeping down freights.

Possibility of reductions of rail freight on particular commodities with the object of increasing traffic generally.

59. The nett result of our examination of the figures is that the higher freight on bunker coal rather more than compensates for the concession by which the export rebate is paid on the bunker coal carried by coal exporting vessels, and the reduction in rates, which may prove to be a bounty or subsidy, is brought down from 6*s*. 3½*d*. to 5*s*. 7½*d*. a ton. The question may be raised, however, whether the remission by the South African railways on export coal of half the ordinary freight could not be justified on ordinary business principles as a means of securing additional traffic whether there was a sacrifice of revenue or not. Arrangements of this kind are not uncommon on any railway system, and it may pay a railway to convey a particular commodity at something less than the actual cost of transport, if by doing so the traffic passing over the line is increased. The Agent of the Great Indian Peninsula Railway explained to the Coal Committee that he had been influenced by this factor in reducing the coal rates from the Central Provinces collieries. "Our interest" he said "lies not only in moving the coal, but in keeping the collieries alive. If we increase the output by giving reduced rates to our collieries, we probably double the traffic over that section. If the collieries die out, we lose the incidental traffic such as hardware, piecegoods, foodstuffs, etc. When we move coal from collieries on our own line there is a repercussion on other classes of traffic on our line; when we take coal from other railways, there is no such result."* Unquestionably similar considerations must influence the South African railway administration in fixing the coal rates on their system and the rebate on export coal has raised the exports by nearly 1½ million tons a year. Can the view be accepted then that the 50 per cent. reduction of the railway rate for export coal is merely an ordinary business arrangement which would be adopted by any other railway in similar circumstances? We do not think it can, and we shall endeavour to explain our reasons for holding otherwise.

Domestic rate on coal too low to admit of drastic reductions on export coal.

60. Coal is a commodity which in every country the railways must carry at a rate which is low as compared with the rates on almost all other commodities. The cost of fuel is vital to industries everywhere, and high rates on coal mean slower industrial progress and consequently, in the long run, less traffic for the railway itself. If ordinary coal rates cover the actual cost of transport, it is as much as a railway can hope for, and if they fail to do so, it is usually possible to make up the difference by higher rates on other commodities. It is evident from the figures quoted in the opening paragraphs of Mr. Ginwala's note, that the South African Railways conform to

* Evidence given before the Indian Coal Committee, Volume III, page 188.

the ordinary rule, since the domestic rate for coal is lower not only than all other domestic rates except on lime and on bricks, stone and mining poles, but also than the special export rates for any commodity except (for certain distances) maize and iron ore. It is a fair presumption, therefore, that the ordinary domestic rate for coal, which exceeds the pre-war rate by only 15 per cent., has been fixed as low as it reasonably can be on ordinary business principles, and is no more than sufficient, if it is sufficient, to cover the actual cost of transport. But if so, the considerations outlined in paragraph 59 have already come into play in fixing the ordinary domestic freight, for it is precisely such considerations which determine what a fair commercial rate for a particular commodity is. When the ordinary rate is already very low, there is the less margin for further reductions. To the South African railways considered merely as a commercial concern, the extra traffic can hardly be worth the very high price paid to obtain it.

Only a substantial freight concession could develop South Africa's export coal trade

61. It may be that, as a purely railway proposition, it would be sound policy to make some reduction in the ordinary coal rate if in that way a large export trade could be developed. But here there are two difficulties, for, in the first place, it does not seem possible that in this way the sacrifice of half the freight could be justified, and, in the second place, unless the freight concession were very large, South African coal could not compete in the markets of southern and eastern Asia.

This will be evident from the following table which compares the charges which at present have to be met on South African Coal before it reaches Bombay, with those which would be incurred if the rebate were withdrawn.

	Present charges per ton	Charges per ton if the rebate were withdrawn.
	£ s. d.	£ s. d.
Rail freight	0 6 3½	0 12 7
Port charges in South Africa	0 1 2½	0 1 2½
Sea freight	0 10 0	0 11 3*
Other charges (estimated)	0 1 0	0 1 0†
	0 18 6	1 6 0½

* We have estimated that the bunker coal carried at the export rate is one-fifth of the coal exported from South Africa. The difference between the domestic rate and the export rate is 6*s.* 3½*d.* a ton and one-fifth of this sum is 1*s.* 3*d.* It is assumed in the table that the sea freight from South Africa is reduced to this extent.

† The "other charges," are not known precisely but can hardly be less than 1*s.* a ton.

It will be seen that Natal coal would have to bear charges aggregating £1-6-0 a ton, whereas the c.i.f. price of Natal coal is about Rs. 18 or £1-7-0 a ton. However cheaply coal can be mined in South Africa, it certainly could not be raised at 1*s.* a ton. It is evident that, without a very substantial reduction in the transport charges, South African coal could not come on the Bombay market at all. The inference to be drawn is that the extent of the freight concessions to export coal has been determined not by the revenue which the railways could afford to give up, but by the assistance the export coal trade required if it was to sell freely in India and the Far East.

South African rebate on export coal introduced in the interests of the coal industry rather than to bring traffic to the railways.

62. It is of course impossible in this enquiry to ascertain exactly how the finances of the South African railways are affected by the rebate on export coal, or to determine the motives underlying the action taken. But there is clear evidence that the development of a large export trade in coal is the deliberately adopted policy of the South African Government, who in 1920 set up a Commission to investigate the possibilities of the export trade and to devise measures for its expansion. The Commission submitted its report in 1921 and recommended *inter alia* that export coal should be graded and steps taken to obviate the risk of spontaneous ignition which had hampered the trade in the past. Effect was given to the proposals of the Commission in the Coal Act of 1922 which set up a Grading Board and prohibited the export of ungraded coal. The rebate on export coal, it is true, was first paid several years before the Commission was appointed and is not covered by their recommendations, but it is nevertheless an integral part of the same policy. The evidence points to the conclusion that it is granted not as a mere matter of railway economics, but also on commercial and industrial grounds, by an authority which takes a broad view and considers the national interests as a whole. Mr. Ginwala has drawn attention to the fact that the railways and harbours of South Africa are under the control of a unified administration behind which stands the Union Government, and it is obvious that in these circumstances railway rates can be adjusted in order to facilitate the attainment of what are held to be important national ends. It is impossible to determine the lowest freight at which a South African railway administration working the lines for the profit of its shareholders would carry export coal, but in our view the evidence justifies the conclusion that the adjustment of railway freights so that on export and bunker coal together the freight is little more than half of what would be charged if the coal were intended for internal consumption, is a measure deliberately taken as a means for developing the Coal industry, and not primarily as a means of securing additional traffic for the railways.

Export bounty on South African coal not less than Re. 1-8-0 a ton

63. Our finding as regards the competition of South African coal is that the export trade does in fact receive special assistance in the form of a rebate of railway freight, and that although part of the difference between the export rate and the domestic rate can be justified on the ground that, directly or indirectly, it pays the railways to make the reduction, there is a balance which cannot be explained in this way and must be regarded as a bounty. The extent of the subsidization cannot be gauged exactly, though we have given reasons for believing that 5*s*. 7½*d*. a ton is a maximum figure. For practical purposes, however, it is not important to ascertain precisely what the amount may be. It was explained in paragraph 35 that an increase in the duty on coal from 8 annas to Rs. 2 a ton would do all for the industry that protection can do, and we think that the export bounty received by South African coal cannot be less than 2*s*. 3*d*. which is the equivalent of Re. 1-8. The issue must therefore be faced whether a countervailing duty of Re. 1-8 a ton should be placed on coal imported from South Africa.

The existence of a bounty does not of itself justify the imposition of a countervailing duty

64. It is held in some countries that as soon as the existence of a bounty is established, a duty should automatically be imposed, and that it is needless to make any further enquiry. Thus the Tariff laws of the United States of America* and the Dominion of Canada declare that countervailing duties *shall* be levied if unfair competition exists, whereas the Japanese, Australian, New Zealand and South African laws, and section 8A of the Indian Tariff Act, merely confer a discretionary power on the executive Government and provide that in certain circumstances such duties *may* be levied. In the latter countries it is generally provided that injury or detriment to a home industry must be established before action can be taken, and it follows, of course, that the imposition of the duty is not automatic but involves an enquiry into matters other than the payment of bounties. In India, where the power conferred by the Legislature is purely discretionary, and the law lays down no special conditions other than the payment of bounties, direct or indirect, it seems to us that it ought to be exercised in general accordance with the policy of discriminating protection approved by Government and by the Legislature. In countries such as Australia, where a strongly protectionist policy has been followed for many years, action may often be taken as soon as a *primâ facie* case of unfair competition and consequent injury to industries is made out. But it does not follow in the least that India, where the economic policy is different, should adopt the same course. We do not suggest that the issue should be decided on abstract grounds or by any rigid application of the conditions by which requests for protection are ordinarily judged. But we hold that there are several points to be examined before the

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* Fordney McComber Tariff Act, 1922, section 303.

authority competent to impose a countervailing duty under the Indian law decides to take action.

Procedure for safeguarding industries in the United Kingdom.

65. Since the war action has several times been taken in the United Kingdom to safeguard industries, which suffer from unfair competition, and it may be worth while to explain what the points are which are investigated before a decision is reached, for they offer valuable guidance as to the circumstances relevant in an enquiry into unfair competition. Part II of the Safeguarding of Industries Act gives power to the Board of Trade to impose a duty (subject to confirmation by a Resolution of the House of Commons), and lays down the procedure to be followed. It will not be necessary, however, to examine the provisions of the Act in detail, for the enquiries held since February 1925 have been conducted, not under the provisions of the Statute, but under executive order. Each industry that applies is the subject of a separate enquiry by a Committee, and if the Committee recommends a duty, or an additional duty, and the Government agrees, the proposal is embodied in a Finance Bill and passed through Parliament before it becomes effective. The procedure to be followed is laid down in a White Paper (see Appendix IX), and it will suffice to note here the important points. Before the Board of Trade can order an enquiry it must be of opinion—

(a) that the industry is of substantial importance,
(b) that there is *primâ facie* evidence that the competition of foreign imports is exceptional, and
(c) that employment in the United Kingdom is seriously affected by the competition.

The applicant industry must also show that there are reasons for considering the competition unfair. The Board can refuse an enquiry, irrespective of other conditions, if they are of opinion that the industry is not carried on with reasonable efficiency and economy, or that the imposition of a duty would exert a seriously adverse effect on employment in other industries. Out of 34 applications for enquiries made since the White Paper was published the Board has already refused 13. The Committee appointed to make an enquiry must report on the following points:—

(1) Whether the industry is of substantial importance.
(2) Whether the foreign goods are being imported in abnormal quantities.
(3) Whether the foreign goods are being sold at prices below the cost of manufacture in the United Kingdom.
(4) Whether employment in the industry is seriously affected by the sale of the foreign goods.
(5) Where the competition is unfair, under any of the following heads:—
   (a) Depreciation of currency,
   (b) Subsidies or bounties,
   (c) Inferior conditions as regards labour.

(6) Whether the industry is being carried on with reasonable efficiency and economy.

(7) Whether the imposition of a duty would exert a seriously adverse effect on employment in any other industry.

(8) Whether a claim to a duty has been established.

It will be seen that unfair competition must be established before a duty can be imposed, but it is only one out of several points to be investigated. We do not suggest that countervailing duties should never be imposed unless every one of the conditions is satisfied, but we hold that all the relevant circumstances require examination before a decision is reached.

Duty on South African coal not likely to injure industries in India.

66. In the United Kingdom the effect of a countervailing duty upon other industries is always examined, and if it is likely to prejudice them seriously, the application for a duty may be refused. In India a duty of Re. 1-8 a ton on South African coal is not likely to handicap any industry materially, for though the price of South African coal might be raised by the full amount of the duty, the price of Indian coal would not go up by more than 12 annas a ton, and even this small increase is doubtful for the possibility of importing from the United Kingdom and other countries might keep the price down. We do not apprehend that the duty would inflict serious injury on industries in Bombay, and though at the present time any increase in industrial costs in that city is to be deprecated, we do not consider that a valid objection to the duty can be based on that ground. There are, however, other aspects of the case to be considered.

Success of South African coal not due entirely to the bounty.

67. A committee appointed by the Board of Trade to enquire into an application for a duty would have to report whether the imported goods were being sold at prices below the cost of manufacture in the United Kingdom. The question in this precise form is hardly applicable in our enquiry but it will serve to draw attention to a relevant point. South African coal is not being sold in Bombay at a price which is lower than the price at which Indian coal of the same quality would sell if its price were regulated solely by internal competition. The best Jharia coal, it is claimed, is as good as Natal coal which sells at Rs. 18 a ton c.i.f. Bombay, whereas internal competition would keep the price of the best Jharia coal at about Rs. 17 a ton. We cannot ignore the fact that the reductions in railway freight which South African coal enjoys would not have sufficed to displace Indian coal in Bombay and Sind had consumers been satisfied which the Indian coal they were receiving. It is not, therefore, the bounty alone which has led to a decrease in the sales of Indian coal in certain markets, but the bounty combined with the unsatisfactory quality and condition of Indian supplies in the past. An industry, which is itself partly responsible for the injury it has suffered, has not the same claim to protection against unfair competition, as an industry that is blameless, and it is no

doubt for this reason that Committees in the United Kingdom must report whether the industry is conducted with reasonable efficiency and economy.

Extent to which the sales of Indian coal would probably increase if a duty were imposed on South African coal.

68. Two other points which are specially investigated in the United Kingdom are (*a*) whether the foreign goods are being imported in abnormal quantities, and (*b*) whether employment in the domestic industry is seriously affected. Both points are concerned with the question whether the injury resulting from the unfair competition is serious. The imports of South African coal into Bombay and Sind are not more than 260,000 tons a year which is less than 2 per cent. of the coal output in Bengal and Bihar and Orissa, and the quantities are abnormal only in the sense, that, if the export trade received no special assistance, they would be even smaller. It is not correct, moreover, to assume that the benefit the Coal industry would reap from a countervailing duty can be measured by the quantity of coal imported from South Africa. We have estimated (paragraphs 21 and 50) that a duty on all imported coal could not increase the sales of Bengal and Bihar coal by more than 300,000 tons and that an increase of not less than 100,000 tons is probable in any case, as a result of the new rebates and the grading of shipment coal. South African coal is about two-thirds of the total imports, so that the maximum increase to be expected in the sales of Indian coal is 200,000 tons, or, if the increase in sales which is probable in any case be deducted, about 133,000 tons. But there is another factor to be taken into account. An additional duty on South African coal might result in increased sales not only of Indian coal but also of coal imported from other countries, and particularly from the United Kingdom. It is evident from their proposals that both the Mining Federation and the Mining Association hold this view, and on a matter of this kind their opinion is weighty. Some deduction must be made on this account, and we are unable to put the increase in the demand for Indian coal resulting from an additional duty on South African coal at a higher figure than 100,000 tons, which is less than 1 per cent. of the output of the Bengal and Bihar coal fields. It is obvious that such a duty can do little to diminish unemployment or to keep mines open which otherwise might close down.

Countervailing duty on South African coal not recommended.

69. To sum up, it can be urged in support of a countervailing duty on South African coal that its export is in effect subsidised by the South African Government, and that the duty would not seriously prejudice any Indian industry. On the other side we have shewn that no additional duty would be necessary to keep South African coal out of Bombay and Sind if Indian coal could command the price to which its merits entitled it, that without the aid of an additional duty Indian coal has gradually been recovering its old position in these markets, and is likely to do so more rapidly in the future now that the transport charges have been reduced and shipment coal is graded, and that the imposition of the duty would not

increase the sales of Indian coal by more than about 100,000 tons. In view of these facts we are unable to recommend the imposition of a duty on South African coal, and the measures already taken, *viz.*, the rebate of railway freight and port charges, will, we believe, enable the industry before long to supply as large a proportion of the demand at Bombay and in Sind as it did in 1910 and 1911 when the imports of South African coal were negligible. The adjustment of the railway freights in South Africa with the object of fostering the export trade in coal is not in our opinion a sufficient reason for attempting to shut out South African coal completely from the Indian market. It would be possible in this way to inflict some injury on South African trade, but protective duties are imposed not to injure the industries of other nations, but in order to benefit the industries of the country imposing them. The advantage to the Indian coal industry of imposing an additional duty on South African coal would be almost inappreciable, and insufficient to justify the measure proposed.

Protective duties inappropriate to the coal industry.

70. On broader grounds we hold strongly that it is idle to seek to restore prosperity to the Coal industry by means of protective duties. The one cure for its difficulties is a substantial increase in the demand such as might result from rapid industrial development in India or the recapture of the export markets, and no such increase is conceivable unless every step is taken to make coal cheap. A protective duty on coal is open to greater objection than a similar duty on any other commodity in industrial use, because an increase in its price is reflected in the higher costs of all other industries. It is no less true that of all industries the Coal industry is least able to benefit from a protective duty, for it cannot flourish alone, but can develop only in proportion to the general industrial development of the country. The imposition of a duty on South African coal would arouse hopes and create expectations that in the nature of the case cannot be realized, and would be of no service to the industry in those external markets such as Ceylon and the Straits Settlements, where the competition of South African coal is more formidable than in Bombay and Sind. The need for defensive measures against unfair competition from abroad must depend largely on the extent of the injury inflicted on domestic industries, and the greater the injury, the more important it becomes to devise a remedy. But a protective duty is not the only weapon which can be used, and often not the most effective. The imports of South African coal into India are comparatively small, but the quantities sold in the external markets are very much larger, and it is there that the coal industry has suffered most seriously. When it is a question whether unfair competition should be countered by such a duty, the true criterion to apply is not the extent of the injury suffered from the competition but the advantage to be derived from the duty. If it be the case that the bounty on South African coal is the main reason for the loss of the export markets, and if the measures already taken do not lead to their recovery, then a new issue would arise which might demand investigation. But the question of the export trade is not

before us, and we have referred to it only in order to explain why we cannot regard South African competition in external markets as a reason for imposing a countervailing duty on South African coal imported into India.

Possibility of retaliation by South Africa

71. In bringing this Report to a close we must allude briefly to one more aspect of the case. Protective duties, for whatever reason imposed, may lead to retaliatory action by the countries affected, and a duty which applies only to imports from a particular country is specially likely to produce this result. In such a case it may be necessary to consider whether the aggrieved country will be inclined to retaliate and whether it can retaliate successfully. On the first point, the probability of retaliation by South Africa, if an additional duty is placed on South African coal, we find it difficult to offer any opinion, for there are political and psychological considerations involved which are outside our scope. Something may, however, be said on the question whether South Africa could retaliate successfully. According to the Trade Returns the value of the Indian exports to South Africa and to Portuguese East Africa* in 1924-25 was Rs. 376 lakhs and the most important items are:—

	To South Africa. Rs lakhs	To Portuguese East Africa Rs. lakhs
Jute manufactures	119·9	48·7
Rice	52·4	9 9
Cotton manufactures	5·4	29 5

Apart from coal South Africa exports to India almost nothing except gold which is clearly on a different footing from other merchandise. It does not seem likely that South Africa would levy a retaliatory duty on jute, but the case of rice and cotton goods is not so clear. If the duties on these commodities were raised, a large share of the burden would fall on the Indian population of the Union, and especially those who have settled down as small traders and manufacturers, and the duty on cotton goods might be detrimental to Bombay's export trade. It cannot be said that the South African Government would find it impossible to retaliate if it judged such action expedient, or that the retaliation would not be effective. If there be any risk that South Africa might in this way counter an additional duty on South African coal, it inevitably strengthens the objection to a measure from which India stands to benefit so little.

The Board's findings regarding the proposed duty on South African coal.

72. Our findings regarding the proposed duty on South African coal may be summarised as follows:—

(1) On the South African railways coal for bunkering and export is carried at a rate which is lower by 5*s.* 7½*d.* a ton than the domestic rate for the same distance.

* We have included the exports to Portuguese East Africa because part of them, though not all, must eventually reach the Transvaal through Delagoa Bay.

(2) Some reduction as compared with the domestic rate could be justified on the ground that, directly or indirectly, the railways gained from the increase in traffic, but it is not possible in this way to explain a reduction of about 45 per cent.

(3) The freight concessions to the export coal and part of the bunker coal are integral parts of a policy which aims at the development of a large export trade, and were granted not merely in order to increase the railway traffic but also in the interests of the Coal industry. Special assistance of this kind is equivalent to a bounty on export and must be regarded as unfair competition.

(4) The exact amount of the bounty cannot be determined but it is not more than 5*s*. 7½*d*. nor less than 2*s*. 3*d*. a ton.

(5) An additional duty of Re. 1-8 a ton on South African coal would suffice to give the Indian Coal industry all the benefit it could derive from a duty of this kind.

(6) It is doubtful whether the price of Indian coal in Bombay and Karachi would rise at all as a result of the duty, but the increase (if any) would not be more than 12 annas a ton. There would be no increase elsewhere.

(7) A duty on South African coal would not add appreciably to the costs of any Indian industry.

(8) The invasion of the Indian markets by South African coal is not due to the bounty alone but also to the unsatisfactory quality and condition of the Indian coal sent to Bombay and Sind in recent years. Part of the responsibility for the latter factor rests on the shoulders of the Coal industry in Bengal and Bihar.

(9) The increase in the sales of Indian coal in Bombay and Sind resulting from the duty would not exceed 100,000 tons a year when allowance is made for the coal re-exported, the probable increased imports from other countries, and the increase which is probable even without protection.

(10) A duty on South African coal would do little to diminish employment or to prevent the shutting down of mines.

(11) The competition of South African coal has been felt not only in Bombay and Sind, but also in Ceylon and the Far East, and the loss of the latter markets is a much more serious matter than any injury suffered in the former. The imposition of a countervailing duty on South African coal will do nothing to help the Coal industry where help is most needed.

(12) A duty on South African coal might provoke retaliatory measures, and the possibility of effective retaliation by the South African Government cannot be excluded.

(13) In all the circumstances of the case it is inadvisable to impose a countervailing duty on South African coal.

The Report not signed by Mr. Ginwala.

73. Our colleague, Mr. Ginwala, concurs substantially in the findings numbered 1, 3, 4, 5, 6, and 7 in paragraph 72, but he considers that while there is no justification for imposing a protective duty on imported coal generally, it is desirable that a countervailing duty of Rs. 1-8-0 a ton should be imposed on South African coal. His reasons for rejecting the proposal for a protective duty on all imported coal are not identical with ours, and for this reason he has preferred to record his views in a Minority Report rather than in a Minute of Dissent. For this reason he does not sign this Report.

G. RAINY—*President.*

J. MATTHAI—*Member.*

C. B. B. CLEE—*Secretary,*

14th April 1926.

MINORITY REPORT.

CHAPTER I.

Reasons for dissenting from the Majority Report.

Agreement with Majority on essential facts; difference of opinion as regards recommendations.

I regret the circumstances which have made it necessary for me to write a dissenting report, for on many essential points my colleagues and I are in substantial agreement. All of us agree that the Indian Coal industry has failed to establish any case for protection on general grounds although my reasons for rejecting the proposal for a protective duty on all imported coal are not those urged in the Majority Report.

Exclusion of competition from other countries

2. In my opinion, the competition with Indian coal of the coal imported from countries other than South Africa calls for little consideration. The three other countries from which coal is imported are Great Britain, Australia and Japan. The imports from the two latter are negligible and, while those from Great Britain reached a high figure in 1921 and 1922, owing to the abnormal conditions then obtaining, they fell to the pre-war figure immediately these conditions disappeared. Even if these imports had been much heavier, I should still have excluded them from my proposals for the simple reason that the bulk of the coal imported from the United Kingdom is of a kind and quality different and superior, against which the best Indian coal cannot reasonably expect to compete. The exclusion is on the analogy of the Steel industry in which, for instance, we confined our recommendations to those classes of steel which could be manufactured in India out of Indian ore. In substance, the exclusion is based upon the argument that no competition does, in fact, exist between the coal from the United Kingdom and Indian coal, each being in a separate category, and that there is room in the country for this kind of coal which it needs but cannot produce.

Competition with South African coal.

3. In connection with the competition of South African coal we have reached by somewhat different roads, the same or similar conclusions on the most important of the relevant facts. My colleagues have come to the following findings* which, as far as they go and except as to the amount of the bounty, I accept as substantially representing my own views:—

(1) On the South African railways coal for bunkering and export is carried at a rate which is lower by 5*s*. 7½*d*.† a ton than the domestic rate for the same distance.

(2) * * * * *

* Paragraph 72 of the Majority Report.
† My estimate of the rate is 7*s*. 6*d*. per ton.

(3) The freight concessions to the export coal and part of the bunker coal are integral parts of a policy which aims at the development of a large export trade, and were granted not merely in order to increase the railway traffic but also in the interests of the Coal industry. Special assistance of this kind is equivalent to a bounty on export and must be regarded as unfair competition.

(4) The exact amount of the bounty cannot be determined but it is not more than 5*s*. 7½*d*.* nor less than 2*s*. 3*d*. a ton.

(5) An additional duty of Rs. 1-8-0 a ton on South African coal would suffice to give the Indian coal industry all the benefit it could derive from a duty of this kind.

(6) It is doubtful whether the price of Indian coal in Bombay and Karachi would rise at all as a result of the duty but the increase (if any) would not be more than 12 annas a ton. There would be no increase elsewhere.

(7) A duty on South African coal would not add appreciably to the costs of any Indian industry.

My colleagues say "In India .. . . . where the law" (that is to say, section 8A of the Indian Tariff Act, 1894) "lays down no special conditions other than the payment of bounties, direct or indirect, it seems to us that it ought to be exercised in general accordance with the policy of discriminating protection approved by Government and by the Legislature."† This, in substance, is the principle which I also think ought to govern our deliberations. The application of this principle to the above findings has led me to the conclusion that I must advise the Government of India that a case has been made out for the exercise of its powers under section 8A of the Indian Tariff Act in the national interest, and for the imposition thereunder of a countervailing duty of Rs. 1-8-0 per ton on all South African coal entering India. My colleagues, however, have come to the opposite conclusion.

Difference in methods of approach—main cause of disagreement.

4. The main cause of this difference of opinion is, I think, to be found in the difference in our methods of approaching the subject. My colleagues say‡

"Since the war action has several times been taken in the United Kingdom to safeguard industries, which suffer from unfair competition, and it may be worth while to explain what the points are which are investigated before a decision is reached, for they offer valuable guidance as to the circumstances relevant in an enquiry into unfair competition".

* 7*s*. 6*d*. according to my view.

† Paragraph 64 of the Majority Report

‡ Paragraph 65 of the Majority Report.

APPENDIX II.

Statement showing the production of Indian Cement, and the quantities imported, since the year 1914 (in tons).

Name of Company.	1914.	1915.	1916.	1917.	1918.	1919.	1920	1921.	1922.	1923.	1924
1. South India Industrials, Limited	Not given.						4,931*	3,985*	2,720*	..	2,787
2. Indian Cement Company Limited	945	4,912	7,408	14,042	17,760	19,457	16,222	25,750	21,261	14,814	10,983
3. Katni Cement and Industrial Company Limited.	..	13,000	31,264	40,508	36,730	34,614	33,761	42,977	43,820	53,275	37,120
4. Bundi Portland Cement Limited	..	..	..	19,178	29,854	32,741	36,339	60,100	55,227	57,055	54,604
5. Dwarka Cement Company Limited	..	....	....	..	..	..	..	..	28,308	25,422	(a) 12,000
6. Sone Valley Portland Cement Company Limited.	..	..	..	..	..	..	..	..	..	(b) 23,000	41 400
7. Jubbulpore Cement Company Limited	..	..	..	..	..	..	..	..	..	20,887	29,078
8. Gwalior Cement Company Limited	..	..	..	..	..	..	..	..	..	18,483*	9,945
9. Punjab Portland Cement Limited	..	..	..	..	..	.	..	..	..	(a) 15,000	31,600
10. Central Provinces Portland Cement Company Limited.	..	.	..	..	.	..	..	..	.	(a) 7,000	34,229
Total Indian Production	945	17,912	38,672	73,728	84,344	86,812	91,253	132,812	151,336	234,936	263,746
Imports*	165,723	142,469	97,543	85,594	27,177	92,787	138,698	129,813	136,920	124,822	124,186
Total of Imports and Production	166,668	160,381	136,215	159,322	111,521	179,599	229,951	262,625	288,256	359,758	387,932

* Financial, not calendar, years, except for 1924.
(a) These figures are estimates. The Companies did not inform us of their actual output.
(b) Year ending September 30th, 1923.

APPENDIX III.

Analysis of works costs.

	South India Industrials Limited.	Indian Cement Company Limited.		Indian Cement Company Limited. Estimated future costs given capacity output.		Katni Cement and Industrial Company Limited.	Bundi Portland Cement Limited.		Jubbulpore Portland Cement Company Limited.	Gwalior Cement Company Limited.			Punjab Portland Cement Limited.	Central Provinces Portland Cement Company Limited.
	Actual costs 1922-23.	Actual costs 1923	Estimated costs 1923 if output had been equal to capacity.	(a) as given by the Company originally.	(b) as revised by the Company.	Actual costs 1923.	Actual costs 1923.	Estimated future costs, given capacity output.	Actual costs 1923.	Actual costs 1923.	Estimated costs 1923 if output had been equal to capacity.	Estimated future costs, given capacity output.	Actual costs 1923.	Actual costs 1923.
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Materials	29·04	3·50	3·50	3 50	3 06	5·00	2·60	2 50	3·14	3·10	3·10	2·30	1·66	4·38
Labour	8 30	4·18	2·09	3 00	3·00	1·06	3·08	3 00	1·74	1·93	1·75	1·65	3·57	2·27
Repairs and maintenance	14·47	6·67	3·34	3·50	2·14	4·44	3·58	3 50	1·63	5·17	2·50	1·24	3·21	..
General and miscellaneous	28·66	8·11	4·05	4·50	4 50	3·50	4·65	4 00	5·62	8·80	4·18	3·91	5·73	6·17
Total costs other than power and fuel	80·47	22 46	12·98	14·50	12 70	14·00	13·91	13·00	12·13	19 00	11·53	9·10	14·17	12·82
Power and fuel	23·05	20·50	20·50	15·75	14·71	13·00	16·90	12·00	19·83	13·93	9·18	7·30	11·13	9·89
Total works costs	103·52	42·96	33·48	30·25	27·41	27·00	30·81	25·00	31·96	32·93	20·71	16·40	25·30	22·71
Packing	4·82	9·25	9·25	7·25	6·65	8·00	9·17	9·06	8·00	9 00	9·00	7·30	8·80	7·15
Total costs f.o.r. works (excluding overhead).	108·34	52·21	42·73	37·50	34·06	35·00	39·98	34·06	39·96	41·93	29·71	23·70	34·10	29·86
	..	—1·00*	—1·00*	—1·00*	—1·00*	..	..	..	..	—1·00*	—1 00*	—1 00*	..	..
TOTAL	108·34	51·21	41·73	36·50	33·06	35·00	39·98	34·06	39·96	40·93	28·71	22·70	34·10	29·86

*These deduction entries are due to the system of book-keeping followed by the Companies (See oral evidence of Indian Cement Company).

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